MARCH 2024

Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

2023 ANNUAL REPORT

20 years of advancing audit quality in Canada

CPAB-CCRC.CA

Our vision

The Canadian Public Accountability Board (CPAB) is a leading audit regulator that reinforces public confidence in Canada's capital markets.

Our mission

CPAB promotes audit quality through proactive regulatory oversight, facilitating dialogue with domestic and international stakeholders, and publishing practicable insights to inform capital market participants.

Our core values

Committed to serving the public
Team driven and inclusive
Innovative
Courageous

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A message from Benita M. Warmbold, Chair

Confidence in Canadian capital markets is built on confidence in financial reporting. As Canada's independent public company audit regulator, CPAB plays an important role in protecting Canada's investing public.

The board's key priorities in 2023 included oversight of CPAB's three-year strategic plan, which runs from 2022 to 2024. Management is on track to deliver all key commitments in the plan, with significant progress having been made on a number of fronts, including enhanced transparency in public disclosures regarding CPAB's regulatory assessments.

Over the course of 2023, members of the board had the opportunity to join CPAB management and staff in marking its 20th anniversary, including attending CPAB's fifth Audit Quality Symposium, The Evolving Fraud Landscape, which brought together leaders from industry, global capital markets regulators and audit firms.

In 2023 we welcomed Sophia Tsui to CPAB's board of directors. Sophia brings over 30 years of experience in audit and risk management, as well as executive leadership. Bruce Jenkins retired from CPAB's board after serving for 11 years including as vice-chair and chair of the risk and audit committee. Bruce's strong background in audit and firm leadership, along with his strategic acumen and dedication to serving the investing public, have been extremely valuable to our board, and we wish him well.

This being my last report as chair, I wanted to thank the board for their support and engagement, and Carol Paradine and her team for their unwavering commitment to the mission of CPAB.

Benita M. Warmbold, FCPA, FCA, ICD.D, F.ICD
Chair

A message from Carol A. Paradine, CEO

2023 marked CPAB's 20th anniversary. This milestone provided an opportunity to reflect on how CPAB has been a catalyst for improved audit quality in Canada, putting in place strong independent regulatory oversight to protect the investing public.

The results of CPAB's 2023 regulatory assessments were broadly similar to last year and can best be described as mixed. We saw inconsistency across all categories of firms. We continue to see a strong association between audit quality and strong systems of quality management. Of particular concern is the high rate of inspection findings at one of the four largest firms, two other annually inspected firms and several non-annually inspected firms. Work remains to be done.

We continue to evolve our approach to how we disclose the results of our regulatory assessments. In 2023, we began publishing significant enforcement actions imposed as a consequence of inspection findings. In Q4, we conducted a follow-up consultation with the public on changes to our rules regarding mandatory sharing of CPAB inspection reports with audit committees and publishing condensed individual firm inspection reports. We believe these changes will have a positive impact on audit quality in Canada by providing the public with greater visibility to the outcome of our inspections, and to the work of firms that audit Canadian reporting issuers.

CPAB continues to be an active national and global voice in conversations regarding emerging issues in the audit, as well as ongoing areas of concern such as fraud. In 2023, we issued a risk alert to firms on artificial intelligence and a communication on auditing reporting issuers that use a service organization. We published an overview of themes discussed at our Audit Quality Symposium, The Evolving Fraud Landscape, and we shared observations from our thematic review on climate impact.

CPAB's ability to deliver on our mandate depends on our people. Professional development this year included auditing in a crypto and blockchain environment and emerging areas such as artificial intelligence. I am pleased that we have a strong retention rate of 91 per cent, and that our employee survey results show that the CPAB team remains highly engaged and has a strong understanding of our vision, mission and values.

I wish to thank CPAB's Board of directors and our team for their ongoing support and commitment to strong audit quality in Canada.

Carol A. Paradine, FCPA, FCA
Chief Executive Officer

Strategy

2023 was the second year of CPAB's 2022-2024 strategic plan. Below is an overview of our progress against each of our four strategic commitments.

Strategic commitment one:

Advance a quality-driven culture across auditors of Canada's public companies.

Highlights:

- As of 2023, CPAB publicly discloses significant enforcement actions and recommendations not implemented on a timely basis. In 2023, eight enforcement actions were disclosed.
- Held a public consultation on proposed rule changes to introduce mandatory disclosure of significant inspection findings to the reporting issuer's audit committee and to enable the publishing of condensed individual firm inspection reports for each audit firm inspected by CPAB. A summary of public feedback and comment letters are available on CPAB's website.
- Incorporated detailed audit quality risks related to governance and culture into CPAB's audit quality assessment model.
- Worked closely with the Canadian Securities Administrators in identifying and adopting opportunities to improve information-sharing practices, such as the protocols for sharing information with the CSA about investigations or situations where there may be heightened risk.

Strategic commitment two:

Tackle emerging audit quality challenges head on.

Highlights:

- Through more than 35 speaking engagements and 195 individual meetings, engaged with audit committees and management across a range of industries, including small and mid-sized reporting issuers, as well as stakeholders such as standard-setters, capital markets regulators, educational institutions and academics.
- Held CPAB's fifth Audit Quality Symposium, attended by regulators, corporate directors, standard-setters, public accounting firm leaders, investors and academics. The topic of this year's symposium was the evolving fraud landscape.
- Co-hosted a fifth annual Audit Quality Roundtable with the Office of the Superintendent of Financial Institutions and the Canadian Securities Administrators.
- Imposed new enforcement actions on six firms in 2023 and continued or modified enforcement actions on 10 firms.

Strategic commitment three:

Evolution of the audit.

Highlights:

- Shared perspectives on the use of artificial intelligence in the audit with audit firms and other audit regulators.
- Shared findings and a publication on the quality of work performed by auditors when reporting issuers use service organizations.
- Continued to take an active, international leadership role in shaping the evolution of the audit, with the goal of influencing global audit standards. CPAB holds leadership roles on several International Forum of Independent Audit Regulators working groups, and presents to, and participates in, working meetings and events hosted by other national regulators.
- Continued engagement with standard-setters for environmental, social and governance reporting and performed a thematic review focused on assessing how auditors are considering climate-related factors in their audits.

Strategic commitment four:

CPAB's team and culture – guided by our public interest responsibility.

Highlights:

- Employee retention remains high at 91 per cent, as does our employees' understanding of our mission, vision and core values at 98 per cent, resulting in strong employee engagement. Engagement survey results in 2023 indicate an employee satisfaction rate of 4.01 out of five.
- Enhanced our inspections and enforcement teams and commissioned an effectiveness review by external specialists. Recommendations resulting from the effectiveness review will be implemented in 2024.
- Continued to focus on increasing diversity, including at the board level.
- Continued development of our team through training on artificial intelligence, auditing in a crypto and blockchain environment, emerging audit technology tools, as well as project management, leadership skills and diversity and inclusion awareness.

CPAB’s regulatory disclosures

As part of our strategic commitment to advancing a quality-driven culture across auditors of Canada’s public companies, we have taken steps to expand the information we disclose publicly.

CPAB is increasing transparency in relation to the results of our regulatory assessments and enforcement activities. It is our view that doing so supports stakeholders in Canada’s capital markets by providing more information on the results of CPAB’s oversight activities and responds to increasing public expectations about access to information from regulators. In addition, for some audit firms with significant quality issues, we believe it improves audit quality by increasing the motivation to address audit quality deficiencies in a timely manner. Finally, proposed changes are aligned with disclosures made by audit regulators in many international jurisdictions.

In January 2023, CPAB implemented two of the disclosure recommendations stemming from our 2021 public consultation, in accordance with our current powers. Specifically, this entails:

- Publishing significant enforcement actions imposed on a firm as a consequence of inspection findings.
- Disclosing recommendations which were included in a firm report but not addressed by the firm.

In the fall of 2023, we conducted a public consultation on proposed rule changes to facilitate the implementation of our other two disclosure recommendations:

- Mandatory disclosure of reporting issuer-specific inspection findings to their audit committee.
- Publication of condensed individual firm inspection reports for each audit firm inspected by CPAB in a given year.

Following the consultation, during which CPAB heard from a range of stakeholders, we are in the process of obtaining all approvals from the relevant provincial government and securities regulators. The timing of final approval and any changes that are identified in this approval process is uncertain. At this point, we anticipate that these approvals will be completed by the end of 2024.

Implementing these proposed rule changes requires amendments to the *CPAB Act*. Such amendments would be at the discretion of the Ontario legislature.

When the rule and legislative changes are complete, we will publish a plan detailing how and when these new disclosures will be implemented, in accordance with applicable laws in each relevant jurisdiction. If the required rule and legislative changes are complete by the end of 2024, we anticipate the changes to be effective for our 2025 inspections with mandatory audit committee reporting occurring throughout 2025 and our first public inspection reports on the 2025 inspections published in early 2026.

For more information, visit cpab-ccrc.ca/insights/disclosures.

Operational report

CPAB's assessment landscape

at December 31, 2023:

ALL REGISTERED FIRMS

251 audit firms registered with CPAB (2022: 265)

of these, **68** firms do not audit reporting issuers (2022: 81)

the remaining **183** firms (2022: 184) audit approximately **8,535** reporting issuers (2022: 8,800)

25 audit firms withdrew registration (2022: 15)

15 new audit firms registered (2022: 13)

1 registration terminated as a consequence of enforcement actions (2022: zero)

3 registrations terminated for administrative reasons (one) or due to geo-political issues between Canada and Russia (two) (2022: zero)

13 ANNUALLY INSPECTED FIRMS

audit approximately **7,075** reporting issuers or **91%** of all reporting issuers as measured by market capitalization

The four largest audit firms audit approximately...

5,220 reporting issuers or **90%** of reporting issuers as measured by market capitalization

The nine other annually inspected firms audit approximately...

1,855 reporting issuers or **1%** of reporting issuers as measured by market capitalization

170 NON-ANNUALLY INSPECTED FIRMS

audit approximately **1,460** reporting issuers or **9%** of all reporting issuers as measured by market capitalization

99 foreign firms audit approximately...

380 reporting issuers or **8.5%** of reporting issuers as measured by market capitalization

71 other Canadian audit firms audit approximately...

1,080 reporting issuers or **0.5%** of reporting issuers as measured by market capitalization

Figure 1

Regulatory oversight

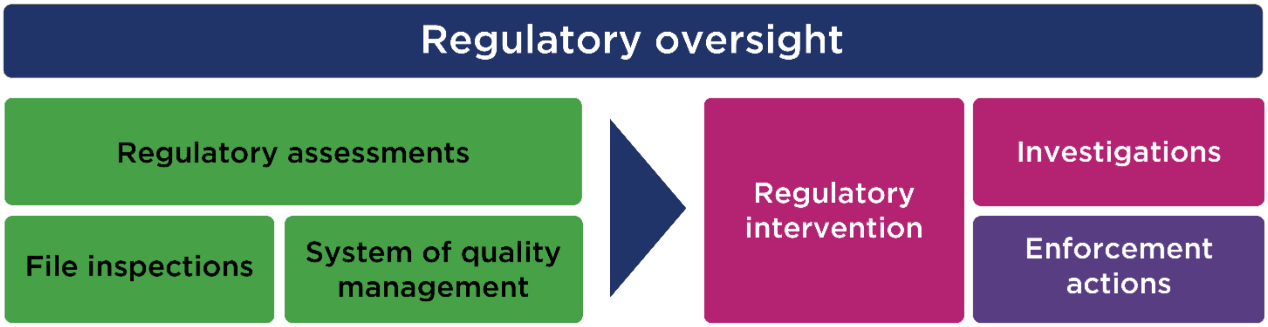


Figure 2

CPAB's regulatory oversight of public accounting firms that audit Canadian reporting issuers includes the inspection of completed audits of financial statements, assessment of the firm's system of quality management[1] and regulatory intervention.

This year, we saw mixed results in the firms inspected, with an aggregate findings rate of 34 per cent compared to 33 per cent in 2022. We have observed a strong correlation between the firms that invest in a robust system of quality management to support the consistent execution of quality audits and a lower level of significant findings at those firms.

Of significant concern is the high number of restatements from inspections conducted in the past two years.

We continually evaluate the effectiveness of our regulatory oversight and refine our strategy, enforcement and outreach activities to promote quality audits of Canadian reporting issuers. We publish detailed inspection findings on specific topics through our Strengthening Audit Quality communication series and through thought leadership activities. Our outreach activities, which have expanded the conversation about audit quality matters with a broad range of stakeholders, are outlined on page 36.

How CPAB chooses files to inspect

CPAB's risk-based methodology for choosing files for inspection (and the specific areas of those files) is biased towards higher-risk audit areas of more complex public companies or areas where the audit firm may have less expertise. It is not intended to select a representative sample of a firm's audit work. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors met or exceeded standards. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.

[1] Since 2018, the inspection of the system of quality management for the four largest audit firms has focused on four key areas that we identified as being critical to audit quality: accountability for audit quality, risk management, talent and resource management and oversight. Starting in 2023, we incorporated governance and leadership (including culture) into our evaluation of accountability for audit quality. We also inspected select aspects of annually inspected firms' implementation of the Canadian standard on quality management (CSQM 1). These are collectively referred to as the system of quality management.

2023 regulatory assessments

All public accounting firms that audit a Canadian reporting issuer must register with CPAB[2]. The graphic on page 6 shows the scope of our assessment landscape in 2023.

Firms that audit 100 or more reporting issuers are inspected every year. Starting in 2023, two additional firms are categorized as annually inspected firms, bringing the total to 13 firms (2022: 11) including the four largest audit firms. Collectively, these 13 firms audit approximately 7,075 or approximately 83 per cent of all Canadian reporting issuers or approximately 91 per cent of all Canadian reporting issuers as measured by market capitalization.

Frequency of firm inspections

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. These *annually inspected firms* include the four largest audit firms and, in 2023, nine additional firms. The nine additional firms are collectively referred to as the *other annually inspected firms*.

We also inspect, at least every two years, firms which audit between 50 and 99 reporting issuers. The remaining firms are inspected periodically based on CPAB's risk analysis. These firms collectively are referred to as the *non-annually inspected firms*.

[2] Securities legislation defines what constitutes a reporting issuer. Each of the 13 Canadian securities commissions maintains a list of the reporting issuers in their respective jurisdictions.

File inspections overview

In 2023, we inspected 130 files. The results were mixed, with inconsistency across all categories of firms. We identified significant findings[3] in 44 of the files we inspected. This 34 per cent finding rate compares to 33 per cent across 132 files in 2022. The increase in the aggregate findings rates was observed in certain annually inspected firms. While there was an improvement in the aggregate findings rates at the non-annually inspected firms, the level of findings at many firms remains unacceptably high.

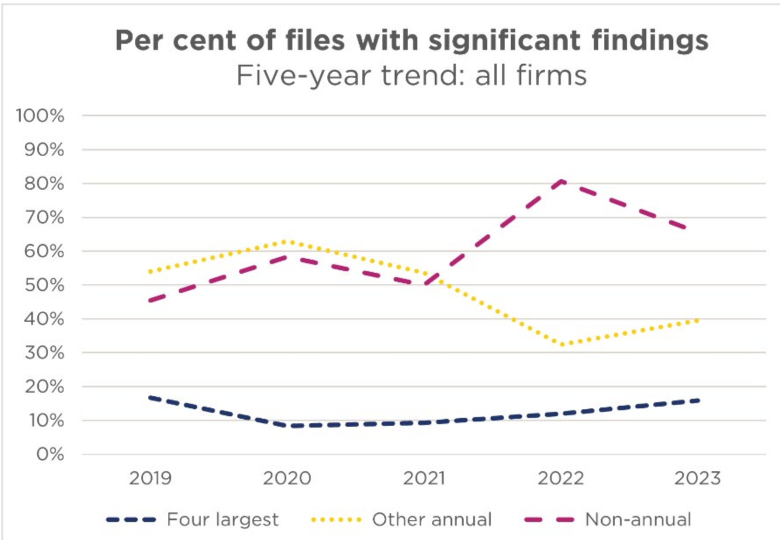


Figure 3

Two of the four largest audit firms met the target of no more than 10 per cent of files inspected with significant findings. One firm has missed the target for the second consecutive year, with significant findings of 29 per cent in each of 2023 and 2022. Another firm that met the target in the prior year did not meet the target in 2023, with significant findings of 14 per cent in 2023.

The aggregate level of significant findings at other annually inspected audit firms increased with a findings rate of 39 per cent (15 of 38 files), compared to 32 per cent (11 of 34 files) in 2022.

The level of significant findings at non-annually inspected firms remains concerning, with a findings rate of 66 per cent (19 of 29 files), compared to 81 per cent (25 of 31 files) in 2022.

For more detail on the results of our inspections, please see page 16 (annually inspected firms), page 20 (four largest firms), page 23 (other annually inspected firms) and page 26 (non-annually inspected firms).

Please see page 32 for information about our enforcement activities.

[3] Significant findings – A *significant inspection finding* is defined as a deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB requires firms to carry out additional audit procedures to verify there was no need to restate the financial statements due to material error, or to substantiate that they had obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream to support their audit opinion.

OVERVIEW

Our inspections in 2023 included 62 files of Toronto Stock Exchange (TSX)-listed entities and 68 non-TSX-listed entities (2022: 69 TSX; 63 non-TSX). In the past five years, the overall level of significant findings in non-TSX-listed entities has remained unacceptably high.

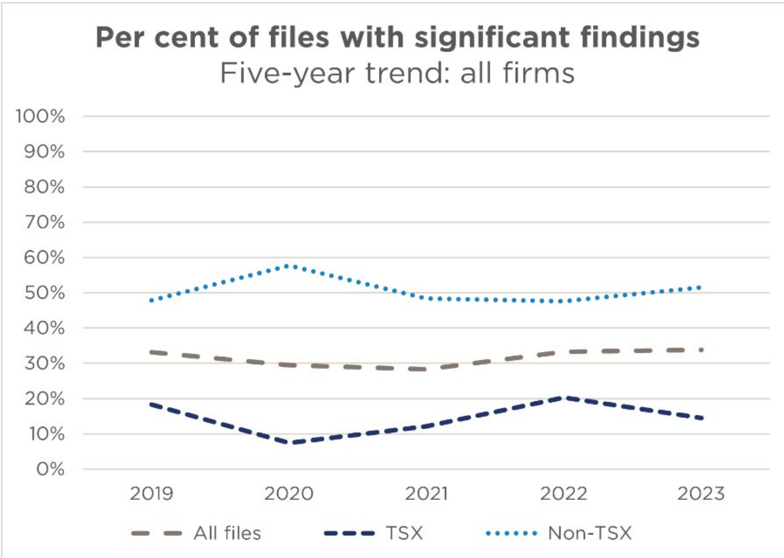


Figure 4

When a significant finding relates to the sufficiency of the auditor's evaluation of the appropriateness of an accounting policy and related disclosures, the firm must perform additional procedures to re-evaluate its accounting conclusions. If the need for a restatement is identified, the reporting issuer must work with the firm to issue revised audited financial statements as soon as possible—usually within the next quarterly reporting cycle.

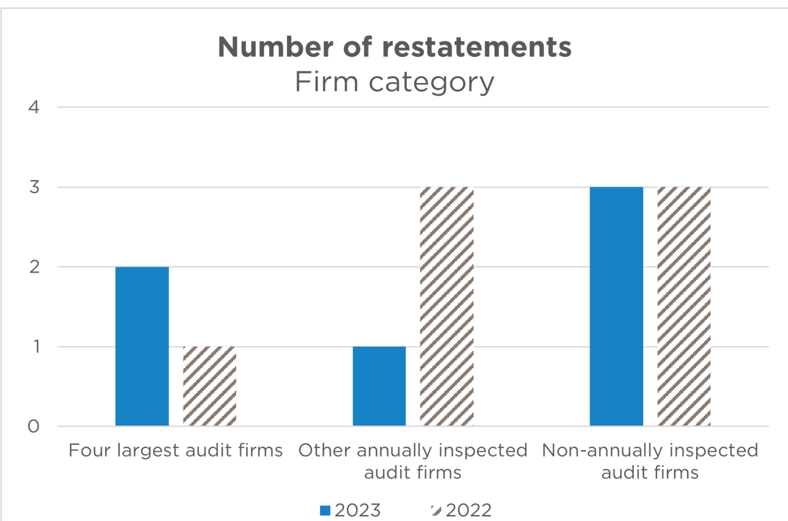


Figure 5

Six restatements have been made as a result of significant findings identified during our inspections since our 2022 annual report. Of the six restatements, five resulted from inspections conducted in 2023 and one resulted from an inspection conducted in 2022. This compares to seven restatements reported in our 2022 annual report.

Figure 6 illustrates the industries in which these reporting issuers operated for 2023 and 2022. There is no apparent theme or pattern to the affected industries.

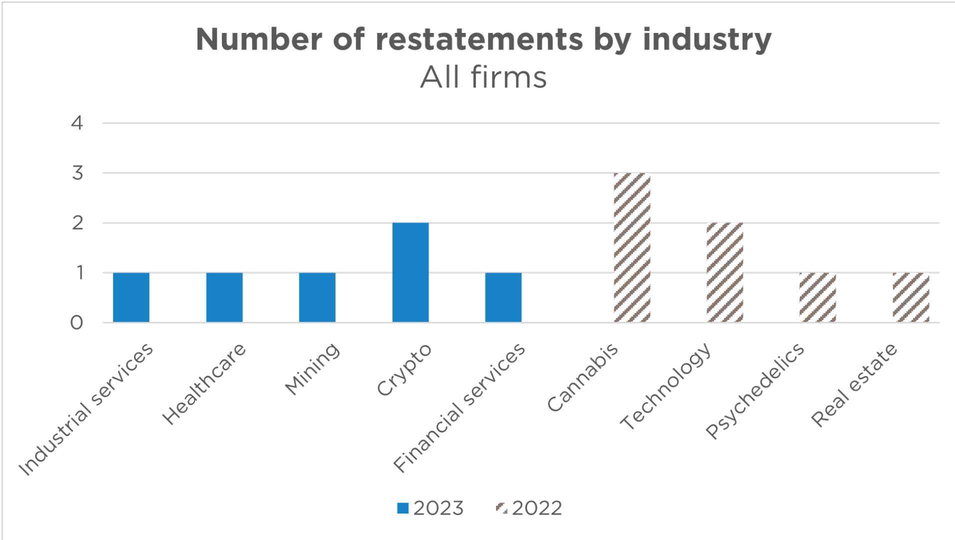


Figure 6

The audit areas resulting in restatements in 2023 included business combinations (mergers and acquisitions), share capital, long-lived assets and debt classification. By comparison, the audit areas resulting in restatements in 2022 included business combinations (mergers and acquisitions), revenue and long-lived assets. The level of restatements resulting from our inspections in the past two years is concerning and raises a broader concern about the sufficiency of the auditor's evaluation of the appropriateness of accounting policies and related disclosures. Please see the section entitled **Inspection findings and trends** on page 13 of this report for more detail on these and other findings.

In 2023, we obtained access to and reviewed component auditor working papers located in foreign jurisdictions for 10 files selected for inspections (2022: seven). There was one significant finding in the foreign component auditor working papers we reviewed (2022: one). We requested and were denied access to two component auditor working papers located in China. CPAB does not currently have an agreement with Chinese authorities which would enable access to these working papers.

System of quality management assessments

All firms were required to design and implement a system of quality management in compliance with the new quality management standard by December 15, 2022 and perform an evaluation within one year. We have observed a strong correlation between firms with a robust system of quality management and a lower level of significant findings identified through our file inspections.

Three of the four largest audit firms met the target assessment ratings of *acceptable* or *acceptable with opportunities for enhancement* in 2023 across the four key areas of focus: governance and leadership's accountability for audit quality, risk management, talent and resource management and oversight. The firm that did not meet the target for the four key areas of focus also did not meet the target of no more than 10 per cent of files inspected with significant findings. Two of the six files with significant findings at that firm resulted in restatements of the audited financial statements. A decision regarding further regulatory intervention will be made in 2024.

Our assessments in 2023 for other annually inspected firms were limited to the design and implementation of select aspects of the system of quality management. We found that many of the other annually inspected firms did not have all relevant controls across the four key areas of focus fully designed and implemented by December 15, 2022.

Inspection findings and trends: ALL FIRMS

Common themes in inspection findings

A substantial portion of significant findings in 2023 related to the following issues or concerns, which we reported as common themes in our interim inspections report:

- The auditor's identification and assessment of the risks of material misstatement in the financial statements.
- Services provided by a service organization, such as payment processing, online sales processing or crypto custodian services.
- Perpetual inventory systems.
- Audit documentation, and supervision and review.

In November 2023, we published Audit considerations relating to an entity using service organizations: Strengthening audit quality and in March 2024, we published Identifying and assessing the risks of material misstatement: Strengthening audit quality. These communications to all audit firms registered with CPAB provided more detail on the nature of deficiencies, CPAB's expectations and the practices observed in audit files with no significant inspection findings. These and other communications are available in the Resource Centre section of our website.

Additional areas in which there were significant findings related to:

- Evaluation of the appropriateness of accounting policies and related disclosures.
- Inventory held with third parties.

Evaluation of the appropriateness of accounting policies and related disclosures
Remediation of significant findings in the audit work supporting the assessment of management's accounting policies and related disclosures resulted in six restatements (2022: seven). The following are examples of deficiencies that led to restatements:

- The engagement team did not consider contradictory information in the reporting issuer's other public filings, such as press releases, management's discussion and analysis and the annual information form that indicated the accounting treatment may not have been appropriate given the disclosed facts.
- The evaluation of unadjusted errors identified by the auditor only focused on the size of the error and did not consider whether there was any indication of management bias or a risk of other unidentified errors that would require additional audit work.
- The engagement team did not sufficiently review contracts, resulting in relevant terms that impacted the timing of revenue recognition not being identified and evaluated.
- Incorrect conclusions arose because the engagement teams either did not consult with the firm's technical accounting experts on the appropriateness of the accounting treatment or provided incomplete information to the firm's technical accounting experts.

Inventory held with third parties

In our interim report, we highlighted concerns over the sufficiency of audit evidence obtained when reporting issuers rely on perpetual inventory systems. In addition, we have identified concerns over the sufficiency of audit procedures performed over material inventory balances held with third parties. In one case, the auditor's primary audit procedure to support the existence and condition of inventory was confirmation with the third party that was also a customer without sufficient consideration of whether to conduct a physical inspection of the inventory or to undertake other audit procedures. This is concerning because the value of the inventory was many times materiality and represented a significant portion of the inventory reported in the financial statements.

The audit approach described above placed implicit reliance on the effectiveness of the controls at the third party, without obtaining an understanding of the third party's controls over inventory processing, including inventory count procedures. While the auditing standards contain a generalization that the reliability of audit evidence is increased when the auditor obtains the information directly from independent sources, the standards require specific additional audit procedures when confirmations are used as evidence of the existence and condition of inventory under the custody and control of third parties.

System of quality management observations

We have observed practices that demonstrate a firm's commitment to consistently performing quality engagements by establishing a culture that recognizes and reinforces the firm's role in serving the public interest. Such practices include:

- A governance and leadership structure that includes a board of directors with members who are independent of firm leadership.
- The importance a firm places on quality is evident in its strategic decisions and supported through actions, including the firm's financial and operational priorities. This includes investing in a system of quality management that is iterative and responsive to changes in the nature and circumstances of the firm and its engagements.
- Leadership has defined, measurable key performance indicators that align with their responsibilities and accountabilities to drive the expected behaviours.
- Employee engagement surveys are performed throughout the year and consistently achieve high response rates.
- The firm monitors the results of its employee engagement surveys and evaluates what changes to the design, implementation and operation of relevant controls are necessary. For example, if survey responses indicate that staff do not feel they have sufficient time to perform assigned work or that budgets are unrealistic, the firm validates the response to determine if the results indicate that controls are not appropriately designed, implemented or operating effectively.
- Leadership and staff are held accountable for violations of professional standards, including independence breaches, unethical behavior, and poor audit quality results.

Engagement files with no significant findings are often supported by robust firm-level controls and processes to ensure partners and staff assigned to specific audits collectively have the appropriate competencies and enough time for senior members of the team to direct, supervise and review the work performed throughout the engagement. When firm leadership has visibility on the progress of audit work and changes in risk, they can resolve issues promptly and proactively. Often, the significant findings in CPAB inspections are matters that should have been identified by senior members of the engagement team through detailed review. In October 2022, we published System of quality management call to action: Strengthening audit quality. The observations in that publication remain relevant.

Annually inspected firms

13 ANNUALLY INSPECTED FIRMS

audit approximately
7,075
reporting issuers or
91%
of all reporting issuers
as measured by market capitalization

The four largest audit firms audit approximately...

5,220 reporting issuers or **90%** of reporting issuers as measured by market capitalization

The nine other annually inspected firms audit approximately...

1,855 reporting issuers or **1%** of reporting issuers as measured by market capitalization

Figure 7

Annually inspected firms

Starting in 2023, two additional firms are categorized as annually inspected firms. Historical inspection results presented from 2019 to 2022 only include the inspection results for the 11 firms that were categorized as annually inspected firms in those years.

At the 13 annually inspected firms (2022: 11), CPAB inspected 101 audit files in 2023 (2022: 101) and identified significant findings in 25 files (2022: 19).

- Four largest audit firms: 63 files inspected (2022: 67); 10 with significant findings (2022: eight).
- Nine other annually inspected audit firms (2022: seven): 38 files inspected (2022: 34); 15 with significant findings (2022: 11).

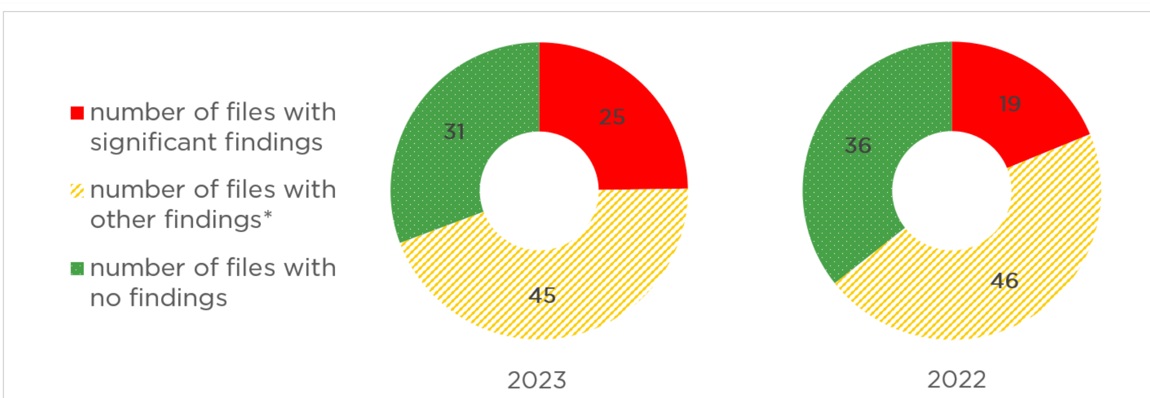


Figure 8

* *Other findings* – A noted deficiency in the application of generally accepted auditing standards related to a material balance sheet item or transaction stream where CPAB is able to conclude, without the engagement team performing additional procedures to support the audit opinion, that the deficiency is unlikely to result in a material misstatement. These findings, while not significant, indicate areas for improvement.

Of files inspected at these firms, 25 per cent had significant findings (2022: 19 per cent). In 2023, our annual inspections included 59 files of TSX-listed entities and 42 non-TSX-listed entities (2022: 65 TSX; 36 other).

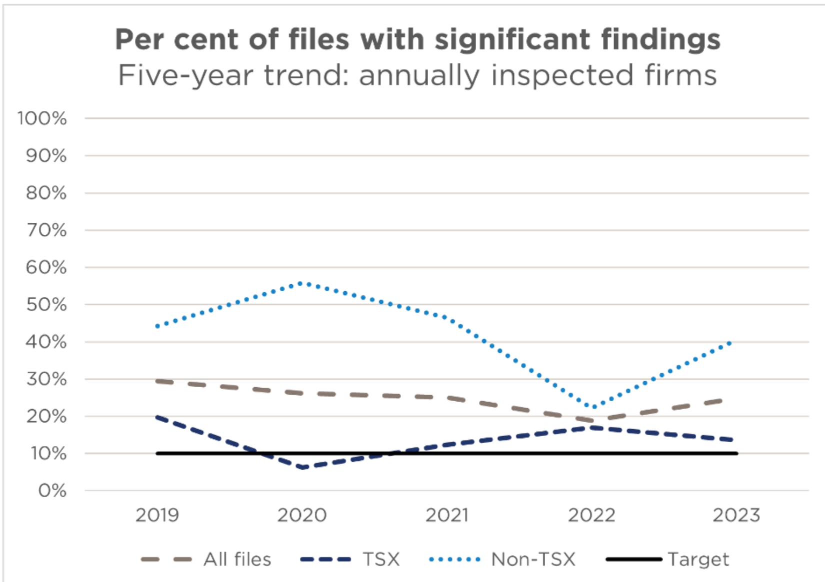


Figure 9

Figure 10 reflects the audit areas most frequently reviewed at the 13 annually inspected firms (2022: 11 firms) in 2023 and 2022 and the level of significant findings. These areas were selected because they were generally material to the reporting issuer's financial statements or included complex issues or judgment.

	2023 (13 firms)		2022 (11 firms)	
Audit area	Files inspected	Significant findings	Files inspected	Significant findings
Revenue and related accounts	82	11	78	4
Long-lived assets[1]	52	1	54	7
Business combinations	41	3	46	3
Inventory	35	5	34	1
Financial instruments[2]	34	5	24	5
Resources[3]	9	1	2	0

Figure 10

[1] Includes goodwill, intangible assets, investment properties and property, plant and equipment.

[2] Includes investments, loans, allowance for credit losses, derivative assets/liabilities, claims liabilities and reinsurance assets.

[3] Includes exploration and evaluation assets and mining properties, related expenses and reclamation provisions.

Figure 11 shows the number of files inspected and the number of significant findings at the 13 annually inspected firms (2022: 11 firms) in the specified industries in 2023 and 2022.

	2023 (13 firms)		2022 (11 firms)	
Industry	Files inspected	Significant findings	Files inspected	Significant findings
Technology	18	8	17	3
Mining	14	4	7	1
Industrial goods and services	12	4	12	2
Financial services	10	2	13	1
Consumer products	9	1	5	0
Oil and gas	6	1	5	0
Healthcare	6	2	5	1
Real estate	5	0	4	0
Retail	5	0	2	1
Cannabis	5	2	6	2
Communication and media	3	1	0	0
Crypto	3	0	3	2
Clean technology	2	0	3	1
Professional and commercial services	1	0	1	0
Transportation services	1	0	3	0
Psychedelics	1	0	4	2
Life sciences	0	0	3	0
Entertainment	0	0	1	1
Agriculture	0	0	1	1
Forest products and paper	0	0	2	1
Utilities and pipelines	0	0	4	0
Total	**101**	**25**	**101**	**19**

Figure 11

Since our 2022 annual report, our inspections of annually inspected firms resulted in restatements by reporting issuers in the following industries: industrial services (one), healthcare (one) and financial services (one). There were four restatements at annually inspected firms reported in our 2022 annual report. The following inspected audit areas resulted in restatements since our 2022 annual report: long-lived assets, debt classification and share capital.

Firm-specific assessments

CPAB's firm-specific assessments include the inspections of completed audits of selected Canadian reporting issuers and each firm's system of quality management.

Since 2018, we have assessed four key areas of focus identified as being critical to audit quality at the four largest firms: accountability for audit quality, risk management, talent and resource management and oversight. Starting in 2023, we incorporated governance and leadership (including culture) into our assessment of accountability for audit quality. We also inspected select aspects of each annually inspected firm's implementation of the Canadian standard on quality management (CSQM 1). These are collectively referred to as the *system of quality management*.

Deloitte LLP, Ernst & Young LLP, KPMG LLP & PwC LLP

The four largest audit firms audit approximately...

5,220
reporting issuers

or **90%**
of reporting issuers
as measured by market capitalization

Figure 12

We inspected 63 files (2022: 67) at the four largest firms and identified significant findings in 10 of those files (2022: eight). Sixteen per cent of files inspected at the four largest firms had significant findings (2022: 12 per cent). Two of the four largest firms met the target of no more than 10 per cent of files inspected with significant findings (2022: three). These two firms had one file each with a significant finding in 2023 (2022: one firm with one significant finding and one firm with no significant findings). Another firm that met the target in 2022 missed the target in 2023, with two files (14 per cent) with significant findings (2022: one file; six per cent). The fourth firm missed the target in both 2023 and 2022, with six files (29 per cent) with significant findings (2022: six files; 29 per cent).

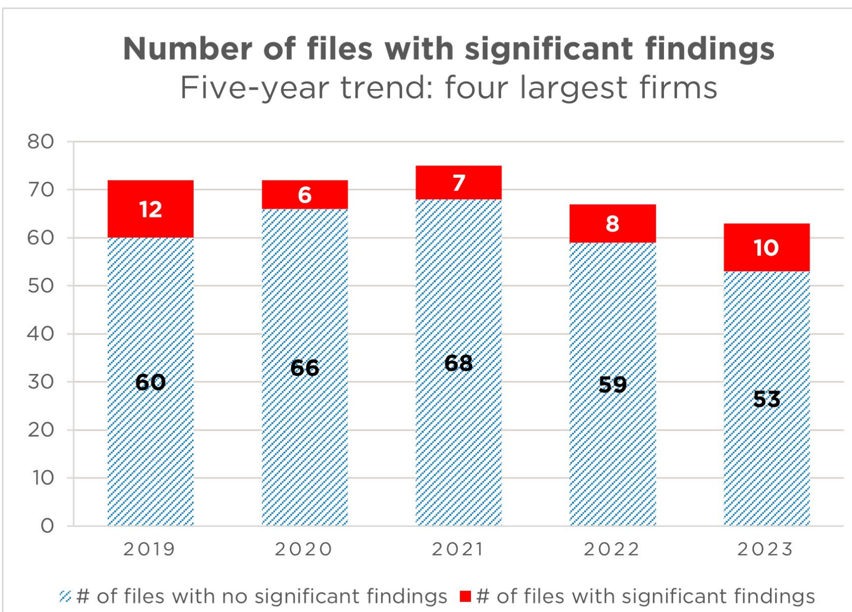


Figure 13

The remediation of significant findings identified in 2023 is either complete or is in progress. Two restatements have been made as a result of significant findings identified during our inspections since our 2022 annual report (2021: one).

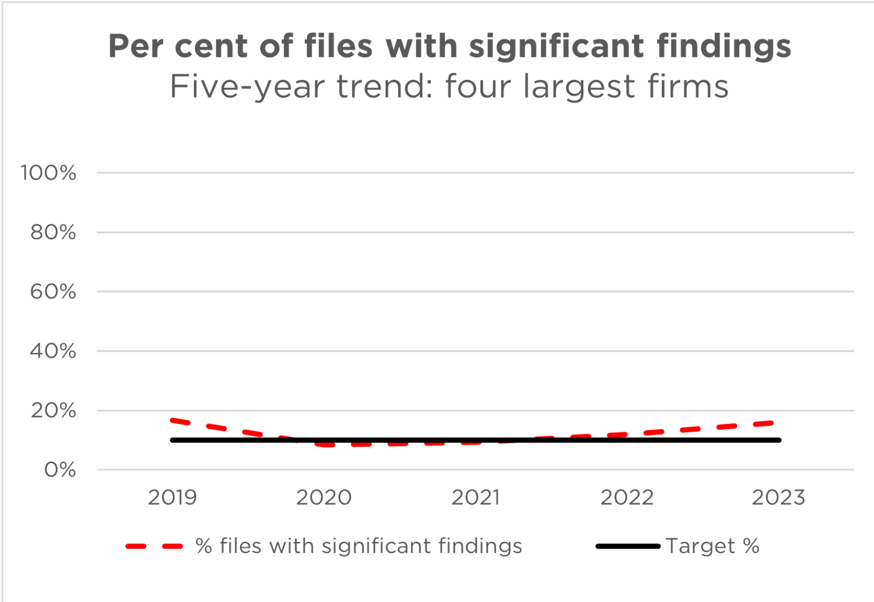


Figure 14

In addition to inspecting selected audit files, CPAB also annually assesses the system of quality management at each of the four largest audit firms according to a four-point scale from *acceptable* to *requires significant improvement*, as illustrated in Figure 15. The target is for all four firms to achieve *acceptable* or *acceptable with opportunities for enhancement* in the four key areas of focus.

Three of the four firms achieved CPAB's target in 2023 and 2022, with their system of quality management assessed as *acceptable* or *acceptable with opportunities for enhancement.* One firm missed the system of quality management target in 2023 and 2022 and was rated as *needs improvement* in all four key areas of focus. None of the four largest firms were rated as *needs significant improvement* in any of the four key areas of focus.

Key areas of focus		Acceptable	Acceptable with opportunities for enhancement	Needs improvement	Requires significant improvement
Governance and leadership's accountability for audit quality	**2023**	**2**	**1**	**1**	
	2022	3		1	
Risk management	**2023**	**3**		**1**	
	2022	3		1	
Talent and resource management	**2023**		**3**	**1**	
	2022		3	1	
Oversight	**2023**	**2**	**1**	**1**	
	2022	3		1	

Figure 15

Please see the sections entitled **Common themes in inspection findings** on page 13 and **System of quality management observations** on page 14 of this report for more detail.

The firm that missed the targets for both the number of files inspected with significant findings and its system of quality management assessment ratings in 2023 and 2022 must perform procedures to identify underlying factors that continue to impact audit quality. This firm will be required to develop and implement specific actions to meaningfully improve audit quality. While this firm continued to make progress to address our observations related to its system of quality management, including documenting, amending and/or implementing new controls and processes, not all deficiencies previously identified were fully addressed. Newly implemented controls could only be assessed for design but not operating effectiveness. A decision regarding escalating regulatory intervention on this firm will be made in 2024.

Crowe MacKay LLP*, Davidson & Company LLP, De Visser Gray LLP*, DMCL LLP, Manning Elliott LLP, McGovern Hurley LLP, MNP LLP, Raymond Chabot Grant Thornton LLP, Smythe LLP

The nine other annually inspected firms audit approximately...

1,855
reporting issuers

or **1%**
of reporting issuers
as measured by market capitalization

Figure 16

*Starting in 2023, Crowe MacKay LLP and De Visser Gray LLP are reported as *other annually inspected firms* because they audit 100 or more reporting issuers. Historical inspection results presented from 2019 to 2022 only include the inspection results for the seven firms that were reported as *other annually inspected firms* in those years. Inspection results for 2023 are not directly comparable to prior years due to the two additional firms that are now reported as other annually inspected firms.

We inspected 38 files (2022: 34) at the other annually inspected firms and identified significant findings in 15 of those files (2022: 11). The increase in files inspected is aligned with the increase in the number of other annually inspected firms.

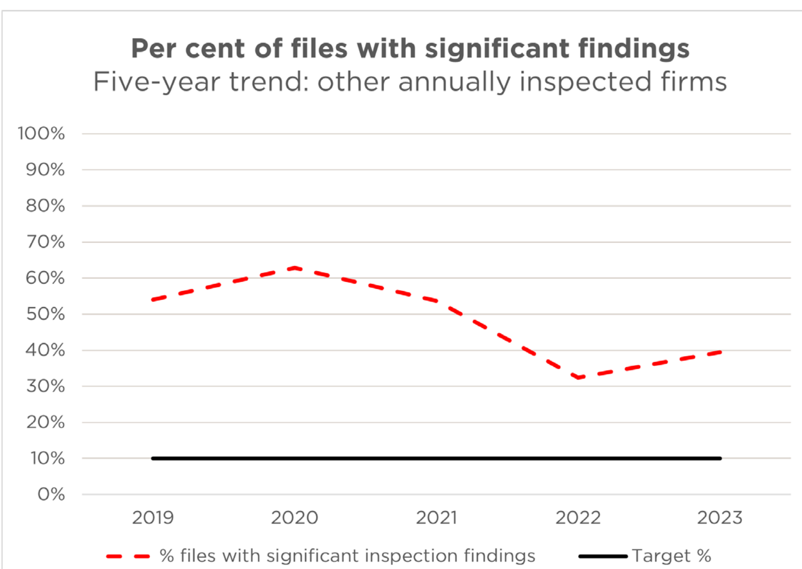


Figure 17

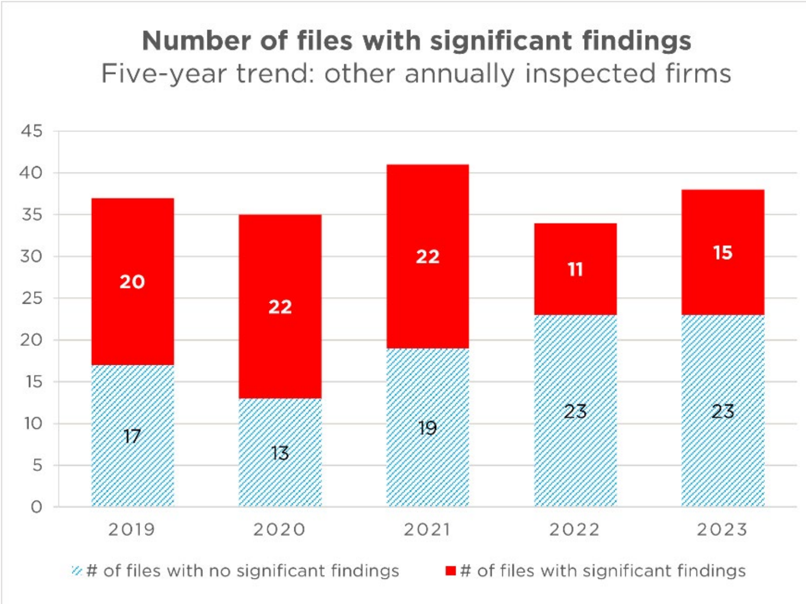


Figure 18

Figure 19 breaks out the number of firms that fell into the following ranges of findings rate in 2023 and 2022: greater than 50%; between 25% and 50%; between 10% and 25% and less than 10%.

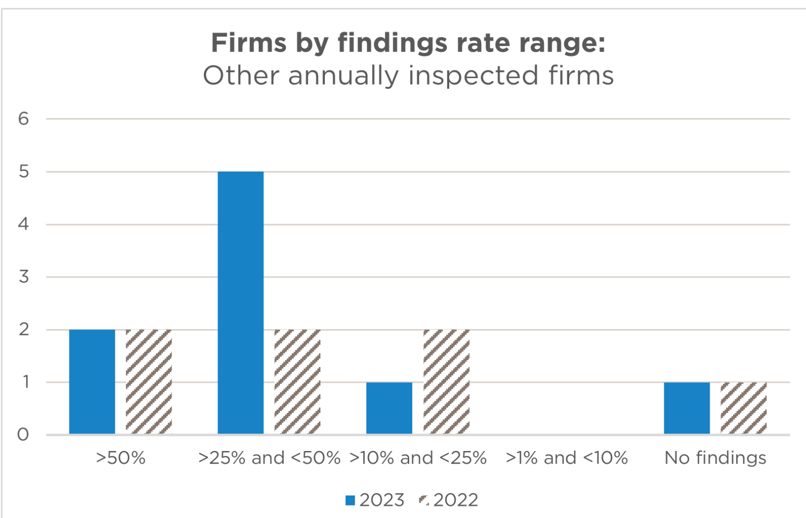


Figure 19

While these firms have made progress in designing and implementing controls and processes that address our four key areas of focus, the inconsistent findings at these firms indicate that more work is needed. Leadership at these firms must commit sufficient qualified resources to operate and monitor their systems of quality management. Firms with significant findings are required to identify underlying factors that continue to impact audit quality. We continue to monitor the implementation of longer-term actions at these firms; this will be critical to achieving the consistent execution of quality audits.

Of the nine other annually inspected firms, enforcement actions were in place for six with unacceptable levels of significant findings over consecutive years. Three of the six firms had improved inspection results in 2023. Decisions will be made in 2024 regarding the continuation, modification or termination of existing enforcement actions.

Further details of our 2023 enforcement actions are outlined in the **Enforcement overview** section on page 32 of this report.

The remediation of significant findings identified in 2023 has either been completed or is in progress. Since our 2022 annual report, one restatement has been required pertaining to the audit area of share capital.

Please see the sections entitled **Common themes in inspection findings** on page 13 and **System of quality management observations** on page 14 of this report for more detail.

Non-annually inspected audit firms

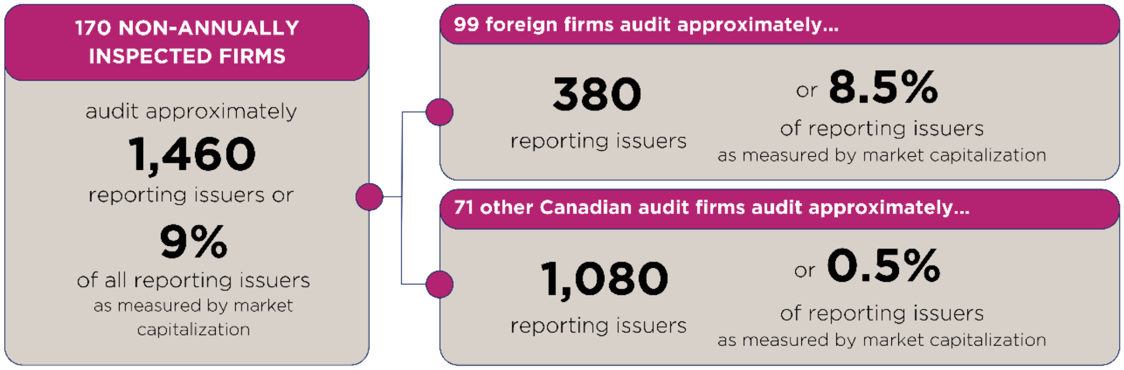


Figure 20

The year-over-year inspection results for the non-annually inspected firms are not comparable because the composition of this group of firms changes each year based on CPAB's risk-based methodology for choosing files for inspection. Our risk-based methodology targets files of more complex public companies or industries and audit areas where the audit firm may lack specialized expertise. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.

We inspected 29 files (2022: 31) at 17 non-annually inspected audit firms (2022: 21) and identified significant findings in 19 (2022: 25) of these files This 66 per cent findings rate compares to 81 per cent in 2022. Eight of the files inspected were at foreign firms (2022: three), and we identified significant findings in six of those files. Significant findings were identified in all three of the foreign firm files inspected in 2022.

There have been three restatements as a result of significant findings identified during our inspections at non-annually inspected firms since our 2022 annual report. Two were in the crypto industry and the other was in mining. This compares to three restatements at non-annually inspected firms reported in our 2022 annual report in the cannabis (two) and technology (one) industries.

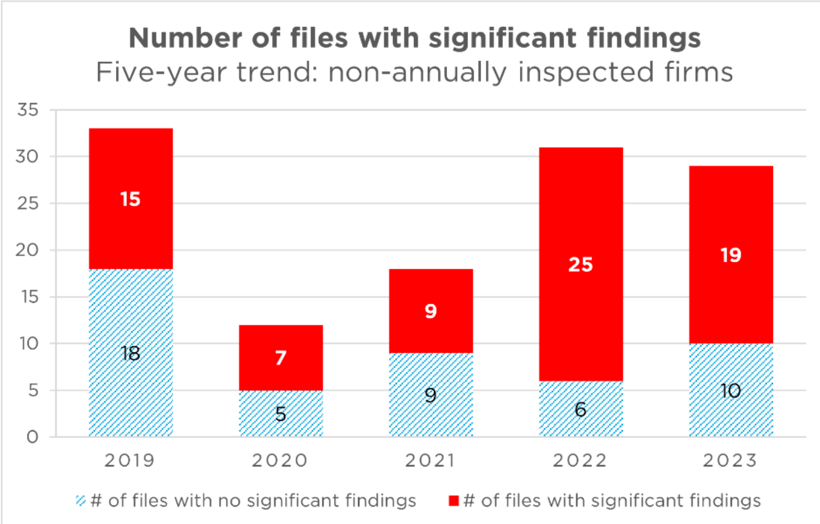


Figure 21

The number of files inspected each year for non-annually inspected firms is aligned with our risk-based methodology. The number of files inspected depends on the number of bi-annual firm inspections (firms that audit more than 50 reporting issuers), the number of file inspections of issuers operating in higher-risk industries, and the number of re-inspections of audit firms where concerns had been identified in previous inspections. In 2020, the pandemic caused us to initially delay some inspections as we adjusted to a remote working environment. As a result, we deferred inspections of smaller non-annually inspected firms to early 2021. We also increased the number of files inspected at foreign firms in 2023 due to the high level of findings observed at these firms in 2022 and the increased number of reporting issuers audited by these firms in 2023.

The nature of the findings at these firms are consistent with the common themes in inspection findings discussed on page 13. Factors that contributed to the higher prevalence of significant findings at some of these firms included lack of experience auditing in a particular industry or audit area and insufficient supervision and review.

Figure 22 shows the number of files inspected and the number of significant findings at the non-annually inspected firms in the specified industries in 2023 and 2022. Thirteen of the 19 files with significant findings identified among non-annually inspected firms in 2023 were in reporting issuers operating in the technology, crypto and cannabis industries. By comparison, in 2022, 20 of the 25 files with significant findings were in the technology, crypto, cannabis and psychedelics industries.

NON-ANNUALLY INSPECTED FIRMS

	2023		2022	
Industry	Files inspected	Significant findings	Files inspected	Significant findings
Technology	6	4	9	5
Crypto	7	5	7	7
Cannabis	7	4	5	5
Psychedelics	0	0	3	3
Industrial goods and services	3	2	0	0
Financial services	1	1	1	1
Mining	3	1	3	2
Consumer products	1	1	0	0
Life sciences	1	1	0	0
Oil and gas	0	0	1	1
Entertainment	0	0	1	1
Healthcare	0	0	1	0
Total	**29**	**19**	**31**	**25**

Figure 22

The level of inspection findings at the non-annually inspected firms is unacceptably high. In 2023, we imposed new enforcement actions on six firms, while four others continued to operate under enforcement actions imposed in previous years. Actions were removed from one firm based on a significant improvement in inspection results. Decisions will be made in 2024 regarding the escalation of regulatory intervention and the modification and/or termination of certain existing enforcement actions.

Further details of our 2023 enforcement actions are outlined in the **Enforcement overview** section on page 32 of this report.

Looking forward

Technology

Over the past few years, we have seen significant advancements in the development of emerging technologies around the world. These developments include an increase in the general availability of applications which incorporate artificial intelligence, many of which could be used by auditors and management of Canadian reporting issuers. In addition, many audit firms are focusing on updating their audit platforms and introducing other automated tools and techniques (ATTs) into their audit methodology.

The continued use and evolution of technology in audits presents both opportunities and challenges that could impact audit quality.

Auditors may be able to leverage new technologies to improve their understanding of the business and operations of reporting issuers, identification of fraud and automation of routine procedures to allow auditors to focus on more complex transactions with higher audit risk.

However, audit firms must remain alert to the risks that advancements in technology can introduce. These may include: increasing complexity of audits; challenges for audit teams to understand and explain how technology works and to assess whether the conclusions reached or output provided by the technology is reliable; and over-reliance on tools with less professional skepticism applied.

CPAB encourages audit firms to implement and/or enhance processes to comprehensively monitor the deployment of new technologies and evaluate their impacts on audit quality, to build appropriate safeguards into the use of emerging technologies to ensure the integrity of the audit process, and to proactively develop and evaluate approaches to mitigate risks arising from the increasing use of technology.

In 2024, CPAB will increase our focus on the impact of emerging technologies, including artificial intelligence, on audit quality. Our work in this area will continue to integrate our findings from our oversight of audit firms that audit Canadian reporting issuers together with our collaboration with other regulators in Canada and with audit regulators internationally through our leadership in the International Forum of Independent Audit Regulators (IFIAR)'s Technology Task Force.

Climate thematic review

2023 is the second year that CPAB has performed a climate thematic review, focused on deepening our understanding of how auditors evaluate the impact of climate-related risks in their financial statement audits. Our ongoing work in this area informs our understanding of how climate matters are currently captured within audit activity and how prepared audit firms are to address climate-related risks that may impact financial statements.

Our 2023 thematic review found that audit firms can do more to prepare their teams to consider and address climate-related risks in their audits.

While an increasing number of engagement teams consider climate-related factors during their risk assessment activities, the quality and depth of risk assessment activities varies significantly between files and firms. Engagement teams also do not consistently discuss climate-related risks with management or those charged with governance as part of their risk assessment activities.

Firms should continue to prepare their teams to engage in these discussions to better inform their risk assessment activities and adapt their audit approach where necessary.

Examples of how audit firms have considered climate related risks include:

- Requiring all engagement teams to assess and document the audit risks related to climate change. For some firms, this is accomplished through a risk assessment template that all audit teams must complete.
- Training and educating all audit professionals on audit risks related to climate change.
- Increasing the number of climate specialists within the firm and providing audit teams with access to these specialists.
- Conducting real-time quality assurance reviews that include a focus on how audit teams have assessed the audit risks related to climate change.
- Providing training and resources to audit teams to prepare for and engage in discussions with management and those charged with governance on this topic.
- Identifying reporting issuer audits that are more likely to be impacted by climate-related risks in the nearer term and providing additional support (including professional practice and climate specialists) to those audit teams to ensure they can fully assess and understand potential climate-related risks and their impacts on the financial statement audits.

Fraud and going concern

Fraud and going concern continue to be important challenges for both domestic and global capital markets and require a renewed focus and effort from all stakeholders in the financial reporting system. CPAB has continued to shine a light on these important topics including the auditor's role in prevention and detection of fraud and in evaluating going concern disclosures.

In 2023, CPAB hosted our fifth Audit Quality Symposium focused on the evolving fraud landscape.

Important takeaways from this event include:

- Auditors need to ensure that their fraud risk assessments consider the specific fraud risks the company will face and should identify opportunities to leverage the use of technology.
- Board members should have in-depth conversations with both the external auditors and management regarding the risk of fraud and stay alert to near misses. Even if they are immaterial, small fraudulent events can expose broader risks that should be investigated.
- Management should continue to increase efforts to be aware of what is happening across their organization.

CPAB's publication on the symposium provides more information on best practices for auditors and board members and key concepts that management should keep in mind to help minimize the risk of fraud.

Through our fraud thematic review, we noted a positive trend in most areas where we had previously identified auditors could improve on procedures performed and adopt good practices.

In addition, CPAB will continue to engage with standard-setters regarding upcoming revisions to international auditing standards in relation to fraud and going concern. In 2023, CPAB was an active contributor to IFIAR's response to the International Auditing and Assurance Standards Board (IAASB)'s proposed amendments to the going concern auditing standard. While we wait for the IAASB's new standards on fraud and going concern, we continue to encourage firms to adopt best practices with respect to their fraud and going concern risk assessments and the related procedures designed to respond to identified risks.

Enforcement overview

Enforcement actions are an integral part of CPAB's regulatory intervention. CPAB takes enforcement actions when necessary to prevent and deter violations of professional and ethical standards. Enforcement actions have increasingly been imposed to improve audit quality with the goal of protecting the investing public. Our focus is on ensuring the implementation of adequate remedial measures to address significant audit quality concerns.

In 2023, CPAB began publicly disclosing significant enforcement actions that resulted from poor inspection findings. Significant enforcement actions include a restriction on a firm's continuance as auditor for certain reporting issuer clients, restriction from accepting reporting issuer clients, prohibition on the assignment of specified professional(s) on audit engagements, and termination of a firm's registration with CPAB.

Summaries are posted on CPAB's website in relation to seven firms that are the subject of significant enforcement actions emanating from inspections findings. These publications can be found on our website and will remain available for a period of four years following the termination of the significant enforcement actions.

In addition to serving as a deterrent, the goal of these publications is to further reinforce public confidence in Canada's capital markets and provide information that supports audit committees and investors in their roles.

Enforcement actions

In 2023, there were 17 firms subject to enforcement actions, compared to 13 in 2022. The increase is due in part to the concerning rise in the number of significant findings identified at non-annually inspected firms, where the number of firms subject to enforcement actions has more than doubled.

Figure 23 identifies the requirements, restrictions and sanctions imposed or in effect in 2023 compared to 2022.

While a restriction on accepting new reporting issuer engagements may relate to a firm's overall practice, there are also instances in which firms have been restricted from accepting reporting issuers that are defined as moderate or high risk. CPAB imposes these types of restrictions when we believe there is a risk to the investing public.

In addition to a restriction, CPAB also routinely imposes a variety of enforcement actions in the form of requirements, listed in Figure 23, which are intended to help the firm improve and maintain audit quality.

Recovery of enforcement compliance monitoring costs is a standard aspect of all enforcement actions.

Enforcement actions imposed or in force by year

		Four largest firms		Other annually inspected firms		Non-annually inspected firms	
		Imposed or in effect in 2023	Imposed or in effect in 2022[(a)]	Imposed or in effect in 2023	Imposed and in effect in 2022	Imposed or in effect in 2023[(c)]	Imposed or in effect in 2022
Sanctions	Termination	-	-	-	-	1	-
Sanctions	Public censure	-	1	3	-	5	-
Restrictions	Restricted from taking on new elevated or high risk reporting issuers	-	-	1	3	1	1
Restrictions	Restricted from taking on new moderate and high risk reporting issuers	-	-	1	-	2	-
Restrictions	Restricted from taking on new reporting issuers	-	-	1	2[(b)]	4	3
Restrictions	Restriction on the continuance of certain reporting issuer clients	-	-	-	-	1	-
Restrictions	Prohibited from assigning certain firm personnel to reporting issuer clients	-	-	-	-	1	-
Requirements	Enhanced reporting to CPAB	-	2	6	6	3	-
Requirements	Additional training and/or coaching	-	-	2	6	6	4
Requirements	Enhanced engagement quality control review	-	-	-	1	3	3
Requirements	Mandated firm client portfolio review	-	-	-	6	3	-
Requirements	Mandated partner and manager portfolio review	-	-	2	6	1	-
Requirements	Appointment of an independent monitor	-	1	4	3	1	-
Requirements	Enhanced disclosure of CPAB inspection findings and recommendations to partners within the firm	-	1	2	2	-	-
Requirements	External professional to review the firm's system of quality control and/or completed audit engagements	-	-	3	3	1	2
Requirements	Cultural survey (perform or implement recommendations)	-	-	3	3	-	-
Requirements	Provide engagement findings reports to audit committees	-	-	-	-	3	2
Requirements	Implement a budgeting and resource management tool	-	-	2	3	1	-
Requirements	Design, implement and test internal controls for engagement budgeting and resource scheduling tools	-	-	4	-	-	-
Requirements	Prepare a budget and project plan to support the implementation of systems of quality management	-	-	-	3	-	-
Requirements	Other (including completing inflight reviews, revising policies)	-	2	8	9	16	4
		-	**7**	**42**	**56**	**53**	**19**
	Number firms subject to enforcement actions	**-**	**2**	**6**	**6**	**11**	**5**

Figure 23

(a) All restrictions and requirements were terminated by December 2022.

(b) The restriction on one firm was terminated by December 2022.

(c) Restrictions and requirements were terminated on one firm in February 2023, and one requirement was satisfied on each of two other firms during the year.

Investigations

In 2023, CPAB commenced four new investigations, the results of which will be published should each investigation identify a violation event that results in the imposition of enforcement actions. CPAB closed one investigation, which resulted in the termination of a non-annually inspected firm's status as a participating audit firm and therefore terminated its ability to conduct public company audits. The results of this investigation are available on our website. Two investigations that began in 2022 are ongoing.

CPAB's regulatory intervention process

CPAB expects firms to resolve audit quality issues as they arise during an inspection. CPAB's Rules provide a framework of regulatory intervention mechanisms to address audit quality deficiencies at the file and firm levels.

Throughout the inspection process, both the engagement team and audit firm are given the opportunity to provide their perspectives and written responses in relation to the facts, findings and recommendations arising from the inspection. Once the inspection has concluded, to protect the investing public and promote audit quality, unresolved matters may be escalated to regulatory intervention. This can include enforcement actions or the commencement of an investigation.

CPAB commences an investigation when we consider that a *violation event* may have occurred, and we wish to seek additional information. A violation event includes conduct that breaches CPAB's Rules or standards of professional conduct for the audit profession and may have an impact on the provision of audit services. This includes a failure to comply with enforcement actions imposed on a firm. An investigation can be triggered by information received from a variety of sources including whistleblower reports, other regulators, CPAB inspections and internal risk monitoring.

Enforcement

CPAB initiates the escalation of regulatory intervention following an inspection or investigation by proposing the imposition of enforcement actions including requirements, restrictions or sanctions. Informal enforcement actions such as undertakings may also be used in a measured effort to address less serious concerns and to attain timely corrective action from a firm. All regulatory intervention is designed to protect the investing public and encourage sustained improvements to audit quality.

Requirements typically involve CPAB mandating that the firm implement targeted actions or change certain practices to improve audit quality, such as conducting a culture assessment, providing additional training or retaining an independent monitor to oversee compliance with any imposed enforcement actions and other audit quality related firm initiatives.

Restrictions typically involve CPAB limiting the audit firm's practice. This could include restricting the firm from taking on new reporting issuer clients, high risk reporting issuer clients or reporting issuer clients in particular industries.

Sanctions include, but are not limited to, a public censure and termination of a firm's status as a participating audit firm.

The initial decision to propose the imposition of enforcement actions is determined by CPAB's Enforcement Screening Panel, composed of senior members of the CPAB leadership team. The panel reviews each matter and formulates a recommendation that is brought to CPAB's board for approval.

If the board decides to propose one or more enforcement action, formal notice is provided to the firm. The firm can challenge the proposed enforcement action(s) by petitioning for a review proceeding. If the firm does not petition for a review proceeding, the enforcement action(s) will come into effect and immediate compliance is required. In 2023, there were no such challenges to enforcement actions proposed and ultimately imposed by CPAB.

External outreach – expanding the conversation about audit quality matters

CPAB's external stakeholders include public company audit committees and directors, investors, other regulators and audit firms.

CPAB's external outreach strategy has these primary objectives, which are informed by our vision and mission.

1. Inform and influence key stakeholders in the interest of promoting audit quality and protecting the investing public.
2. Enhance CPAB's identification and understanding of emerging risks.

CPAB engages with stakeholders through one-to-one outreach, audit committee forums, audit quality symposiums and audit quality roundtables, as well as through presentations at conferences and other events. CPAB also sends information to members of the public via CPAB's subscription-based newsletters and bulletins, our website and LinkedIn.

We continued our outreach to a broad range of stakeholders, including corporate directors, reporting issuer management, investors, regulators, and standard-setters. Key topics covered included environmental, social and governance reporting; the impact of emerging technologies such as artificial intelligence; cybersecurity; managing through economic and geopolitical uncertainty; sufficiency of accounting professionals at audit firms and reporting issuers; and audit firm culture.

2023 Audit Quality Symposium – the evolving fraud landscape

CPAB's Audit Quality Symposium in September 2023 brought together more than 120 stakeholders. This event provided an excellent opportunity to reinforce the importance of the combined efforts of all stakeholders to address important issues impacting investor confidence and audit quality. A summary of the discussion can be found on our website: Canadian Public Accountability Board Symposium: the evolving fraud landscape.

Hearing from investors

We continued to engage with investors, including interaction with investor advocates and institutional investors. Our primary engagement with investors was focused on two areas, including:

- Dialogue with risk professionals within many of Canada's largest institutional investors to discuss emerging risks impacting audit quality and confidence in financial reporting.
- Obtaining input from investor advocates and institutional investors on proposed changes to CPAB's regulatory disclosures.

Connecting with audit committees

We continued to build on our engagement with audit committees of Canadian reporting issuers. The focus during the year was to strengthen existing connections and build new relationships with the audit committee chairs of many of Canada's largest reporting issuers. We also renewed our focus on outreach to audit committee chairs and members of small and mid-sized reporting issuers, reflecting the varied nature of Canada's capital markets.

Outreach included:

- Our annual series of audit committee forums.
  - We held eight forums including all-industries forums and forums focused on the mining, energy, real estate, and financial services industries. We launched a new forum focused on small to mid-sized reporting issuers. A total of 135 participants attended these forums in Vancouver, Calgary, Toronto and Montreal.
  - During these forums, in addition to roundtable discussions, we provided updates on our strategic priorities, raised topics relevant to audit quality and shared upcoming changes to CPAB's regulatory disclosures.
- One-on-one meetings with audit committee chairs.
- Hosting and participating in events and conferences targeted to corporate directors.

Held **8** audit committee forums (**135** participants attended).

Engaged with directors of more than **277** reporting issuers.

Engaged with reporting issuers representing a market capitalization of **$1.9 trillion**.

- Engaged with representatives of **80** reporting issuers with market capitalization between $100 million and $1 billion.

Figure 24

Broadening our reach

In 2023, we had the opportunity to discuss our perspectives and have a dialogue with a broad range of Canadian and international stakeholders through in-person and virtual conferences and meetings.

Examples include:

- Co-hosting the annual roundtable on audit quality with the Office of the Superintendent of Financial Institutions (OSFI) and Canadian Securities Administrators (CSAs) including senior representatives from standard-setters, professional bodies and audit firms.
- Presenting at conferences for audit committees, business valuators, fraud examiners, audit firms, students and academics.
- Meetings with other regulators in Canada and internationally, including audit regulators, securities commissions and provincial regulators.
- Active involvement as members of the Auditing and Assurance Standards Oversight Council and the Independent Review Committee on Standard Setting in Canada.
- Discussing our perspectives and inspection findings with Canadian and international standard-setters.
- Meeting with business and accounting students at Canadian universities.
- Providing our perspectives to standard-setters in Canada and internationally including preparation of six response letters on topics including agenda priorities and work plans, going concern and general requirements on sustainability assurance engagements.

The CPAB team

Our people

2023 marked CPAB's 20th anniversary. Team members celebrated CPAB's achievements and the evolution of our role as Canada's independent public company audit regulator.

CPAB is adapting to the recent shift in workplace norms and expectations. In designing a post-pandemic return to in-person work strategy, CPAB sought to optimize the benefits of a hybrid work environment while maximizing our in-person regulatory interactions.

Updated CPAB core values, introduced in 2022, are now integrated into our performance management process and recognition program. Engagement survey results indicate that this has had a positive impact on employees, with 98 per cent reporting that they understand how CPAB's mission and core values impact how they do their work.

We continued to develop our team, including training on artificial intelligence, auditing in a crypto and blockchain environment, project management, coaching and leadership skills and mental health, diversity and inclusion awareness.

Our average headcount increased by 1.6 per cent in 2023, and we project an average headcount increase of six per cent in 2024, primarily in our inspections and information technology teams.

Key demographics

	2023	2022
Average number of employees	64	63
Women employees	43 (67%)	41 (62%)
Employee retention rate	91%	94%
Women on leadership team	7 (58%)	6 (60%)
Underrepresented groups[4] organization-wide	23 (36%)	17 (26%)
Underrepresented groups on leadership team	2 (18%)	1 (10%)

Figure 25

[4] BIPOC, LGBTQ2S+ and persons with disabilities.

Community Matters

As part of our Community Matters program, CPAB fosters an inclusive and socially responsible environment. Employees engage personally and professionally in a variety of activities that make our communities better places to live. We fundraised and provided financial support to various charities that serve our communities.

Sustainability

CPAB is making a concerted effort to reduce the environmental impact of our operations. We introduced a plan which incorporates waste management, energy consumption, and CO_2 emissions associated with travel.

In 2023, we completed the shift to being a digital-first operation, which we began several years earlier. This shift has resulted in a significant reduction in the consumption of printing paper, estimated in the range of 55 per cent compared to the 2019 pre-pandemic level. We also adopted a more focused approach to waste management, working with the building management in each of our three offices.

We are taking steps to reduce the carbon footprint generated by CPAB-related travel. CPAB has formulated guidelines which will require staff to include a climate impact assessment when considering their travel needs.

Going forward, we will continue to look for opportunities to reduce the climate impact of CPAB's operations, as well as assess the effect of our current efforts and make adjustments as needed.

Governance report

Responsible corporate governance

CPAB's operating practices and governance structure continued to be strong throughout 2023. Our Board of directors oversaw our delivery on our strategic commitments, with a particular focus on enhanced disclosures and enforcement. The board also continued to seek opportunities to engage with CPAB staff, including attending staff meetings and events and inviting CPAB staff subject matter experts to present at board meetings. Board members also participated in CPAB's 2023 Audit Quality Symposium, where they had the opportunity to engage with various stakeholders. The chair of the board was also active in presentations to and interactions with our Council of Governors and its members.

Board composition

During 2023, and as part of our board renewal process, we furthered our search for experienced board candidates. CPAB's By-Law No.1 requires our board to be comprised of individuals with certain prescribed skills, including accountants, non-accountants and those with audit regulatory experience. At the same time, we also engaged in expanding the diversity of our board to include further risk leadership skills and to better reflect our communities.

At the end of 2023, the board comprised 10 directors. Bruce Jenkins retired in June 2023 after 11 years of service. Richard Payette was appointed vice chair following Mr. Jenkins' retirement. Sophia Tsui joined as our newest director in August 2023. At the end of 2023, our board composition was as follows:

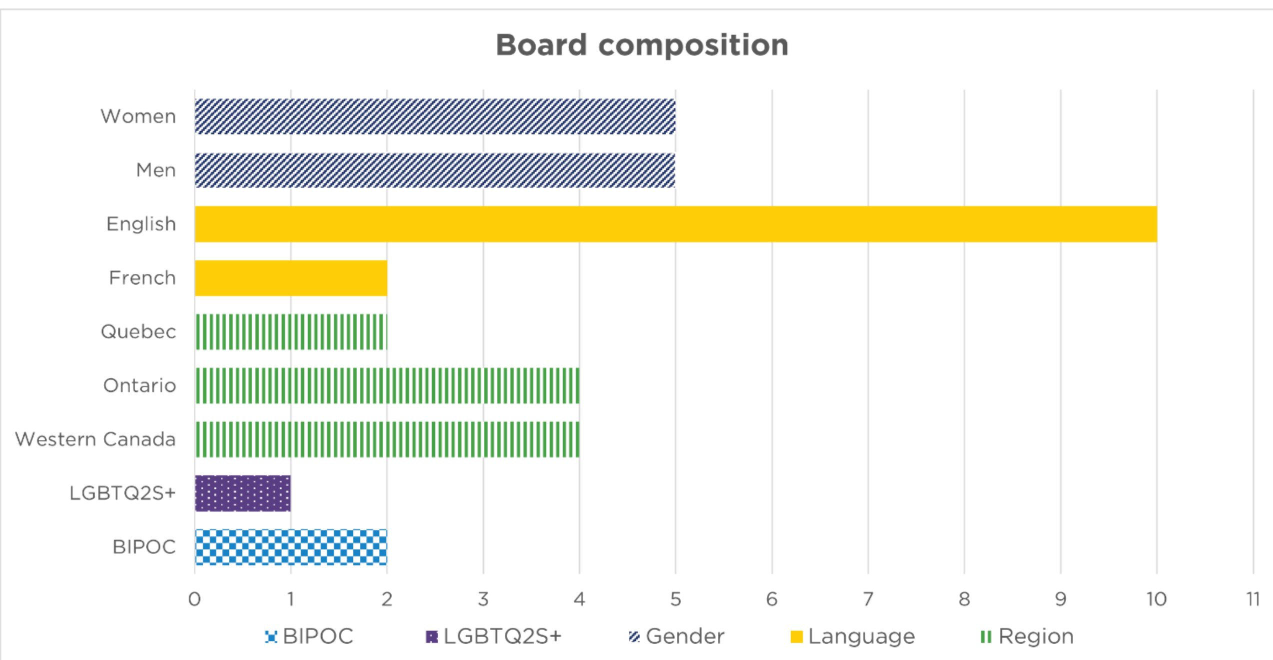


Figure 26

Focus areas for board committees

The board discharges its oversight responsibilities directly and with the assistance of two standing committees – the Risk and Audit Committee and the Human Resources and Governance Committee.

The Risk and Audit Committee assists the board in overseeing CPAB's enterprise risk management, financial planning and reporting, system of corporate controls and the external audit process. During 2023, the committee continued to focus on fiscal and operational risks including cybersecurity. The committee also continued to monitor ongoing audit challenges including in the crypto and cannabis sectors, as well as novel emerging issues relating to the use of artificial intelligence in the audit.

The Human Resources and Governance Committee makes recommendations to the board on issues related to human resources, corporate governance and board composition, as well as board and senior leadership succession planning and effectiveness. Notable activities during 2023 included oversight of the impacts of CPAB's hybrid work environment and board leadership succession. The committee also facilitated the recruitment and appointment of a new director and maintained its oversight over the board and committee charters, as well as CPAB's codes of ethics for staff, consultants and the board. The charters and the codes are available on our website.

Annual board meetings

Eight board meetings, four Risk and Audit Committee meetings and four Human Resources and Governance Committee meetings were held in 2023. While the board was scheduled to meet five times during the year, additional meetings were held to discuss matters, including enforcement related to the 2022 and 2023 audit firm inspection results. The board also met to discuss CPAB's progress on our strategic plan.

	Board of Directors Meetings	Risk and Audit Committee Meetings	Human Resources and Governance Committee Meetings
Benita Warmbold	8/8	4/4	4/4
Richard Payette*	7/8	3/4	2/2
Renaud Caron	8/8	N/A	4/4
Don Chynoweth	8/8	N/A	4/4
Julie Dickson	8/8	4/4	N/A
Bruce C. Jenkins**	4/4	2/2	2/2
Kevin Kelly	8/8	4/4	N/A
Alice Laberge	8/8	N/A	4/4
Mary Lou Maher	8/8	N/A	4/4
Chika Onwuekwe	8/8	4/4	N/A
Sophia Tsui***	3/3	2/2	N/A

Figure 27

* Appointed vice chair in June 2023.

** Retired from board in June 2023.

***Joined board in August 2023.

Director compensation

The Human Resources and Governance Committee reviews director compensation annually and makes recommendations to the board for approval. There were no increases to director compensation in 2023 as compared to the 2022 compensation.

In 2023, an external consultant performed a benchmarking review of CPAB's director and chair compensation. The board approved an increase to director and chair compensation effective January 1, 2024.

Director retainers

Retainer	2023	2022
Board chair retainer	$178,000	$178,000
Vice chair retainer	$59,500	$59,500
Committee chair retainer	$62,000	$62,000
Director retainer	$52,000	$52,000

Figure 28

In addition to annual retainers, directors (except the board chair) receive a per-meeting attendance fee of $1,500 for meetings of two hours or longer, and a per-meeting attendance fee of $750 for meetings shorter than two hours.

Member classes

CPAB is a not-for-profit organization with two member classes – the Council of Governors (COG) and the Provincial Audit Regulator Members (PARMs). The COG performs an annual assessment of CPAB's governance practices and performance against our mandate. The COG also appoints CPAB's directors and review hearing officers. The director candidates are tabled with the COG for appointment on the recommendation of the board of directors. The review hearing officer candidates are recommended by the review hearing officer roster chair and the independent legal counsel. During 2023, the COG appointed one new board director and four new hearing officers to CPAB's roster of hearing officers who may preside over review proceedings. The new hearing officers received training on the administrative hearing process, which was provided by the roster's independent legal counsel. More information about the hearing officers and the review hearing process can be found on our website.

The PARMs annually appoint CPAB's external auditor following a recommendation by CPAB's board. For a detailed description of this aspect of our governance, please refer to CPAB's Statement of Accountability and Governance Practices available on our website. CPAB also meets with PARMs representatives at least once annually to discuss issues of importance to the audit profession. In 2023, discussion topics included CPAB's disclosures initiative, information sharing practices and our inspection results.

Whistleblower hotline

CPAB offers a confidential whistleblower hotline service which is publicly available through our website, as well as internally to all CPAB staff, to enable the anonymous reporting of matters of concern related to CPAB, our employees, our participating audit firms or Canadian reporting issuers. The hotline service is managed by an independent third party. CPAB monitors and responds to concerns, tips and inquiries received through the whistleblower hotline and from other sources. These channels of communication provide important information about potential misconduct that could otherwise be difficult to detect. Reports received to date have either been resolved or are being reviewed by our enforcement team with next steps including investigation and/or a scheduled follow-up with our inspections team.

Management's Discussion and Analysis

Overview

The Canadian Public Accountability Board (CPAB) is an independent, federally incorporated, not-for-profit corporation without share capital. Established in 2003, CPAB promotes audit quality through proactive regulation, robust regulatory oversight, dialogue with domestic and international stakeholders, and practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting. National Instrument 52-108 of the Canadian Securities Administrators requires that auditors of Canadian reporting issuers' financial statements be registered and in good standing with CPAB.

Our regulatory oversight includes assessments of risk-based audit file inspections, the firm's system of quality management and investigations as well as enforcement actions either directly or in co-operation with other regulatory bodies in Canada and internationally.

This management's discussion and analysis (MD&A), prepared as of February 16, 2024, is an analysis of CPAB's operating results for the year ended December 31, 2023. It should be read in conjunction with the audited financial statements for the year ended December 31, 2023, and related notes, which have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. It also includes the outlook for 2024, principal risks and uncertainties that could affect the organization and forward-looking information that describes CPAB's budget, estimates and forecasts. Forward-looking information can be identified by use of future conditional verbs such as should, would or could, or forward-looking terminology, such as budgets, estimates, anticipates, plans, intends and believes.

Forward-looking statements involve risks and uncertainty and reflect CPAB's current views of future events and financial performance. Risks and uncertainty are discussed in the risk management section of this MD&A. Forward-looking information is based on assumptions and estimates, including but not limited to, annual participation fees, regulatory intervention revenue, the frequency, nature and severity of violation events, salaries and benefits, legal expenses and the timing, extent and cost of travel. Actual results may substantially differ from the forward-looking information.

All amounts are expressed in Canadian dollars.

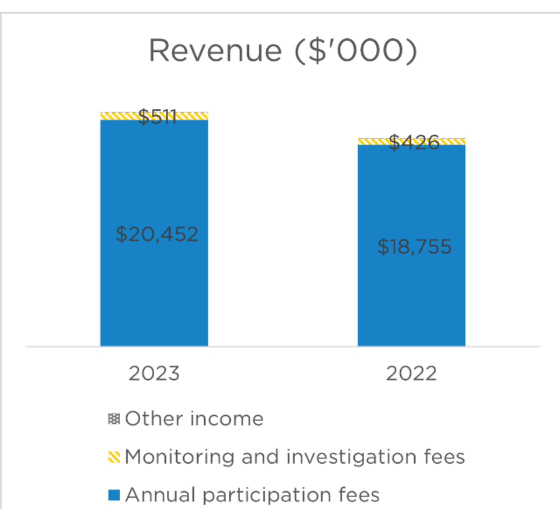
Financial highlights

CPAB is committed to prudent fiscal management and operates on a cost-recovery basis. The chart below summarizes selected financial data for the last three years.

(In $'000)	2023 Actual	2022 Actual	2021 Actual
TOTAL REVENUE	**$ 20,964**	**$ 19,219**	**$ 19,086**
Salaries and benefits	15,719	15,025	14,243
Other operating expenses	5,501	4,704	4,433
TOTAL EXPENSES	**21,220**	**19,729**	**18,676**
Investment income (loss)	421	198	(109)
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**$ 164**	**$ (312)**	**$ 301**
TOTAL ASSETS	11,025	10,910	11,454
TOTAL LIABILITIES	2,667	2,717	2,949
NET ASSETS	**$ 8,358**	**$ 8,193**	**$ 8,505**

Total revenue increased by $1.7 million or 9.1% to $21.0 million in 2023 primarily due to audit fee increases reported by participating audit firms. Total expenses increased by $1.5 million or 7.6% to $21.2 million. Higher expenses were mainly due to increased headcount, and the resumption of travel and in-person meetings at higher costs.

Operating results



Revenue

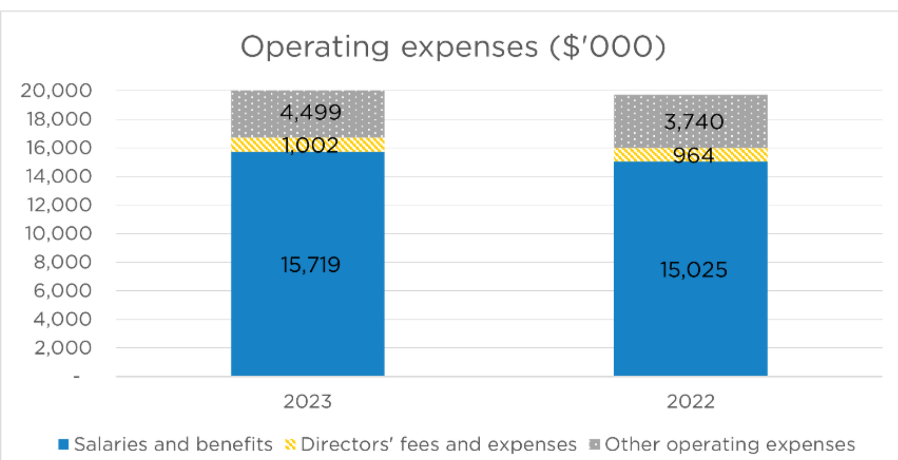
CPAB derives the majority of its revenue from annual participation fees received from Canadian reporting issuers. Other revenue includes billings to audit firms to recover costs incurred as a result of regulatory intervention. This includes the recoveries for monitoring compliance with enforcement actions and the recovery of investigation costs incurred by CPAB.

Each year, CPAB invoices participating audit firms who bill their reporting issuer clients. Annual participation fees increased by 9% from $18.8 million in 2022 to $20.5 million in the current year, mainly attributable to increased audit fees. In 2023, CPAB charged 1.22% (2022: 1.22%) of the total global audit fees billed to Canadian reporting issuers with a cap of $75 thousand for foreign reporting issuer companies operating in some jurisdictions. The audit fees used to calculate CPAB's annual participation fees are the fees disclosed on the SEDAR+ and the Electronic Data Gathering, Analysis and Retrieval (EDGAR) (public company reporting systems used by securities regulators in Canada and the US, respectively) as of November 30, 2023. These fees generally relate to financial statement audits of reporting issuers with year ends between July 2021 and June 2022.

CPAB incurs costs related to its monitoring and assessment of a firm's compliance with the terms of enforcement actions, including follow-up inspections. These enforcement compliance costs are charged to participating firms to recover the costs to CPAB of enhanced regulatory intervention and monitoring of compliance with any requirements, restrictions or sanctions imposed. Costs incurred to conduct investigations are recovered directly from the firm and are recognized as revenue when the amounts are known and collectable, which may occur as investigations are performed or in certain circumstances, upon conclusion of the investigation.

The total regulatory intervention costs recovered in 2023 were $511 thousand (2022: $426 thousand). Enforcement actions were imposed on six firms in 2023, while 10 others continued to operate under enforcement actions imposed in previous years. This net increase in the number of firms under enforcement resulted in an increase in the monitoring of enforcement recoveries of $42 thousand. Investigation cost recoveries increased by $43 thousand in 2023 due an increase in the number of active investigations from three in 2022 to seven in 2023.

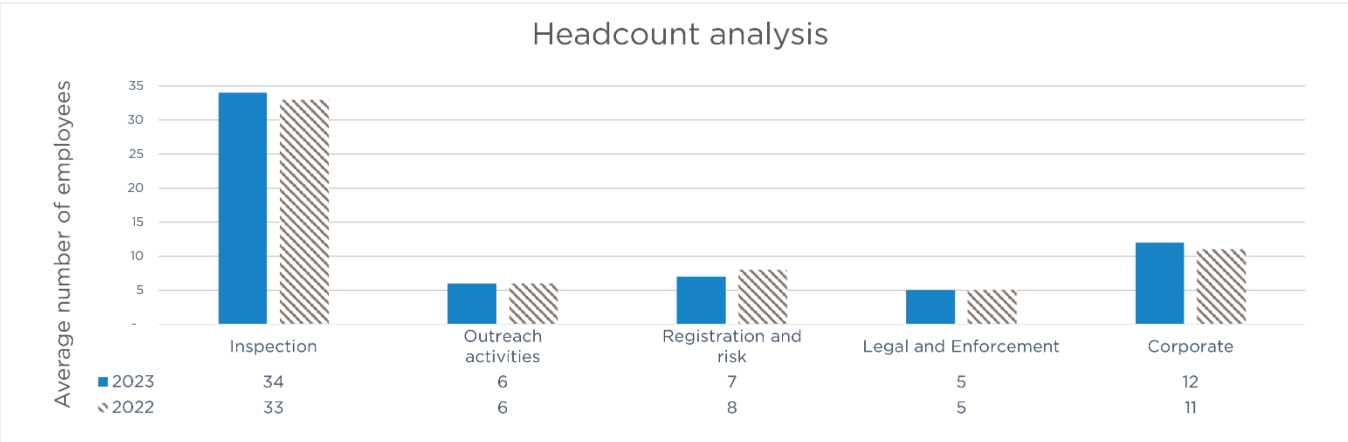
Operating expenses

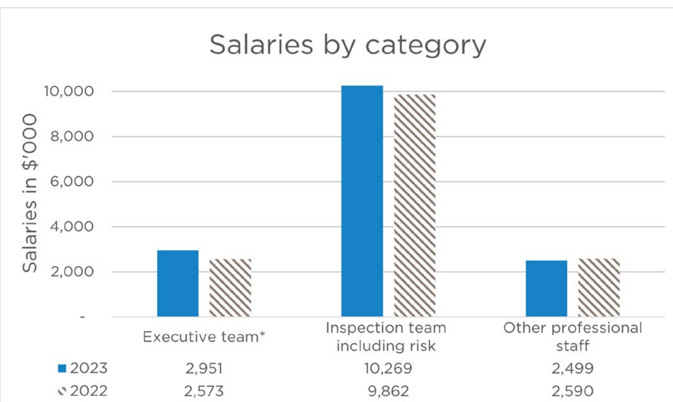


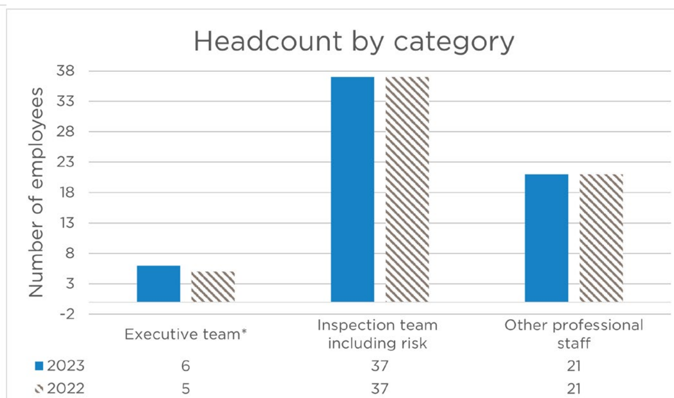
Operating expenses amounted to $21.2 million (2022: $19.7 million) in 2023. Proportionally, salaries and benefits continue to be the most significant operating expense, representing 74.1% (2022: 76.2%) of total expenses.

Salaries and benefits

Salaries and benefits increased by 4.6% or $694 thousand, mainly due to an increase of 3.4% in compensation and increased headcount to reinforce our inspection and administrative teams. In 2023, CPAB had an average of 64 active employees (2022: 63).



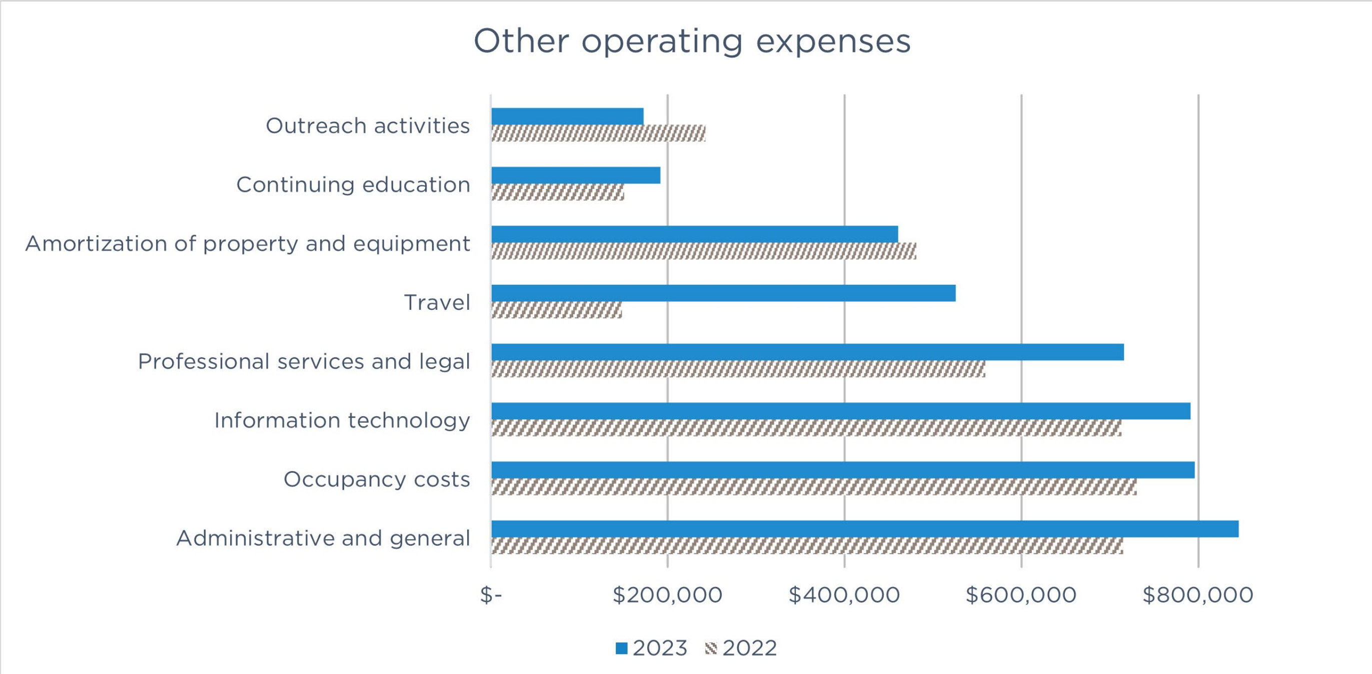




* For the purposes of executive compensation disclosure, the executive team is comprised of a subset of CPAB's leadership team and includes the Chief Executive Officer, Chief Risk Officer and Vice President, External Outreach, Regional Vice President Eastern Canada, Vice President, Inspections, Regional Vice President Western Canada, and Vice President, Enforcement.

Other operating expenses

The following table shows other operating expenses compared to the prior year, excluding salaries and directors' fees.



With the exception of travel expenses, other operating expenses for 2023 have not varied materially compared to the prior year. Travel expenses increased from $148 thousand in 2022 to $526 thousand in 2023 due to the resumption of travel and in-person meetings throughout the year.

Investment income

The return on cash and investments increased from $198 thousand in 2022 to $421 thousand in 2023 due to an increase in the average interest rates on cash balances from 2.8% in 2022 to 5.0% in 2023 and an increase in the average interest rate on non-current investments from 1.5% in 2022 to 2.5% in the current year. Cash reserves are invested in high yield savings accounts and guaranteed investment certificates from financial institutions that are members of the Canada Deposit Insurance Corporation.

Financial position

Condensed statements of financial position as of December 31:

In $'000	2023	2022	2021
Cash and investments	$ 6,571	$ 6,141	$ 9,161
Accounts receivable and prepaid expenses	705	559	540
Accounts payable and accrued liabilities	2,502	2,464	2,608
Net working capital	**$ 4,774**	**$ 4,235**	**$ 7,093**
Non-current assets and liabilities			
Investments	2,660	2,800	-
Equipment, leasehold improvements and intangible assets	1,090	1,411	1,753
Deferred lease inducements	166	254	341
Net Assets	**$ 8,358**	**$ 8,193**	**$ 8,505**

At December 31, 2023, CPAB had a working capital position of $4.8 million compared to $4.2 million in 2022. Our combined cash and investments (current and non-current) aggregate to $9.2 million compared to $9.0 million in 2022. Accounts receivable and prepaid expenses have increased by $146 thousand relative to the prior year primarily due to increased recoveries of enforcement compliance and investigation costs billed in December 2023 compared to December 2022.

Equipment, leasehold improvements and intangible assets have decreased by $321 thousand compared to the prior year primarily due to amortization of $461 thousand, offset by additions of information technology infrastructure and audio-visual equipment of $139 thousand.

CPAB has a guideline for a reserve of $6 million to $11 million, representing approximately three and a half to six months of operating costs, to ensure business continuity should there be fluctuations in revenue or operating costs.

Outlook for 2024

CPAB manages its finances efficiently to support the priorities outlined in our 2022-2024 strategic plan. In this context, we are continuing to reinforce our workforce and increase our investment in developing our people and in technology.

2024 CPAB operating budget (unaudited)

YEAR ENDED DECEMBER 31 (in $'000)	2023 ACTUAL	2023 BUDGET	2024 BUDGET
Revenue	**$ 20,964**	**$ 19,872**	**$ 22,978**
Expenses			
Salaries and benefits	15,719	16,015	17,515
Directors' fees and expenses	1,002	974	1,003
Occupancy costs	796	779	876
Information technology	791	843	962
Administrative and general	578	515	579
Legal services	402	223	445
Professional services	314	175	259
Outreach activities	173	233	150
Insurance	267	297	285
Continuing education	192	210	189
Travel	526	401	516
Amortization	461	492	464
Expenses	**21,221**	**21,157**	**23,243**
Operating excess expenses over revenue	**$ (257)**	**$ (1,285)**	**$ (265)**
Investment income	421	300	**445**
Excess of revenue over expenses (expenses over revenue)	**$ 164**	**$ (985)**	**$ 180**

Commentary on 2023 variances from budget

CPAB concluded the year with an excess of revenue over expenses of $164 thousand compared to a budgeted excess of expenses over revenue of $985 thousand.

Revenue is $1,092 thousand or 5.5% higher than budget primarily due to higher than anticipated audit fees reported by participating audit firms resulting in higher participation fees of $839 thousand. In addition, the total regulatory intervention costs recovered in 2023 were $243 thousand higher than budget. Of this amount, $168 thousand relates to higher investigation cost recoveries due to an increase in the number of investigations during the year and increased recoveries of $75 thousand related to enhanced regulatory intervention and monitoring of firms subject to enforcement actions.

Overall expenses are substantially aligned with budget.

Salaries and benefits are $296 thousand below budget due to higher retirements in the current year and the time necessary to identify appropriate replacement resources for retirements and resignations.

Legal services are $179 thousand higher than budget due the use of external legal counsel to support ongoing investigations, which have increased from three in 2022 to seven in the current year. Professional services exceed budget by $139 thousand primarily due to increased recruitment costs, translation costs and external specialists to support inspections. Travel costs exceed budget by $125 thousand due to a resumption of travel related to our inspection activity and participation in selected other in-person meetings. Travel costs continue to be lower than pre-pandemic levels, which aggregated to approximately $632 thousand in fiscal 2019.

Investment income is $421 thousand or $121 thousand higher than budget due to higher average Canadian interest rates on cash balances of 5.0% compared to budget of 3.7% and higher average interest rates on investments of 2.4% compared to budget of 2.1%.

Commentary on the 2024 operating budget

For 2024, CPAB is budgeting for a surplus of $180 thousand. We anticipate revenue to increase by approximately 9.6% compared to fiscal 2023 and expect general increases in expenses with more significant increases in specific areas, such as salaries and benefit costs and information technology costs. Readers are cautioned that the 2024 budget is based upon assumptions and that actual results or trends may vary significantly.

Revenue

CPAB's 2024 annual participating fees revenue is based on audit fees disclosed by reporting issuers on SEDAR+/EDGAR as of November 30, 2023, and generally relates to financial statement audits of reporting issuers with year ends between July 2022 and June 2023. CPAB's annual participating fees revenue is anticipated to increase by $2.2 million as participating audit firms continue to recover increased operating and compensation costs through increases in audit fees to their reporting issuer clients. The budget for participating fees revenue is established in November prior to the mandatory deadline for participating audit firms to report their audit fees to CPAB as part of each firm's annual submission. As a result, CPAB must estimate participation fees revenue based current year trends in audit fees observed in available public information filed on SEDAR+ and assumptions on foreign exchange, the number and size of new reporting issuers, reporting issuers that cease to be traded or become current on their annual filings. As a result, CPAB has historically had variability in its estimate of annual participation fees revenue and actual budgeted participation fee revenue could vary by up $750 thousand.

Regulatory intervention revenue is comprised of recoveries for enforcement compliance monitoring and investigation costs and are anticipated to decrease by $84 thousand in 2024. In 2023, we imposed new enforcement actions on six firms, while 10 others continued to operate under enforcement actions imposed in previous years.

Regulatory intervention revenue varies from year to year based on the number and size of firms under enforcement and the severity of the violation events. Decisions on enforcement actions resulting from our 2023 file inspection activity will be made in 2024. In addition, ongoing investigations may be resolved earlier or later than forecasted and new investigations may be launched in 2004. Furthermore, investigation costs may be charged to participating audit firms to recover internal and external costs incurred to conduct an investigation. The amount of costs to be recovered from an investigation depends on several factors including the number, nature, complexity and duration of an investigation. Accordingly, actual enforcement compliance monitoring and investigation cost recoveries could vary by up to $250 thousand.

Operating expenses

CPAB's operating expenses for 2024 are budgeted to be $23.2 million, representing an increase of 9.5% over actual operating expenses for fiscal 2023. This $2.0 million increase primarily relates to salaries and benefits of $1.8 million, and information technology expenses of $171 thousand.

The demand for professional resources continues to place pressure on salary and compensation costs. The 2024 budget incorporates an average increase in employee compensation of 4.5%. In addition, salaries and benefits also include additional resources in our inspection team due to the increased use of audit technology and the implementation of the new standards on quality management and insurance contracts. In addition, the budget contemplates one additional resource in our internal information technology team to support the growing demands on the department. These additions will bring our overall average active headcount to 68 full time employees for fiscal 2024 (2023: 64).

The budget for information technology includes costs for ongoing infrastructure, maintenance and licensing. The increase in information technology costs is primarily due to increased costs of security assessments planned in 2024 and general increases for information technology licensing and support, which tend to outpace inflation. Actual information technology costs may vary from budgeted amounts primarily due to the need to use external information technology consultants to support the information technology team.

Budgeted legal costs can be impacted by ongoing investigations and the number, nature, size, complexity and duration of future investigations. In addition, legal costs could be impacted by a review proceeding with respect to our current or future enforcement actions. While external legal costs are recoverable from the participating audit firm and legal costs are recoverable from a review proceeding in certain circumstances, legal services could vary significantly from budgeted amounts.

In 2022, CPAB renewed its operating lease for its Toronto office facilities for a 10-year period commencing in mid 2024. Under the terms of the agreement, minimum lease payments will be approximately $120 thousand higher per year than the existing agreement.
In 2024, CPAB anticipates approximately $750 thousand in capital expenditures, primarily for information technology infrastructure updates, data management and office upgrades to our Toronto office space.

Over the past year, the economic environment continued to be impacted by rising audit fees, demand for professional staff, rising interest rates, inflationary pressures and slower economic growth. Beyond 2024, revenue from participation fees is expected to continue to increase due to the upward pressures on audit fees, however the rate of increase is expected to decline. CPAB's current funding rate is 1.22% of global audit fees.

Executive compensation

CPAB uses consultancy services to establish compensation ranges for its employees and monitors public compensation benchmarking information. These practices support our efforts to provide compensation that is comparable and competitive.

Executive compensation in 2023, including all amounts paid to the CEO, Chief Risk Officer and Vice President, External Outreach, Regional Vice President Eastern Canada, Vice President, Inspections, Regional Vice President Western Canada, and Vice President, Enforcement totaled $2.95 million. The Vice President, Enforcement was promoted to this position effective January 1, 2023. Accordingly, the executive compensation in 2022 only included five executives, which aggregated $2.57 million. Executive compensation includes salaries, accrued bonuses, registered retirement savings plan contributions and benefits.

Principal risks and uncertainties

CPAB's enterprise risk management program, led by our Chief Risk Officer and overseen by the Board of directors, addresses all aspects of CPAB's operations. Emerging risks are a standing agenda item at CPAB's monthly leadership team meetings and management reviews our progress on risk mitigation at least quarterly and performs a complete review of our risk register at least annually.

Critical risks

The chart below outlines our most important risks and how we mitigate these risks:

Risk	Mitigation
Data security – risk of security breaches related to private and confidential data.	• Execution of a comprehensive data security and cyber breach response plan, including: ▪ Ongoing phishing exercises with our employees. ▪ Periodic external review of CPAB's IT system. ▪ Third party engaged to perform ongoing managed detection and response of possible cyber events. ▪ Tabletop exercises to test CPAB's cyber breach response plan. ▪ Review of third-party services within our IT infrastructure and applications.
Public confidence in audit – risk of erosion in confidence in audits due to a significant audit failure.	• Execution of our plan to increase our regulatory disclosures. • Execution of our inspections operating plan, including review of the system of quality management at the annually inspected participating audit firms, to drive more consistent audit quality. • Active sharing of CPAB's views on current issues including the use of service organizations, the use of technology in audits and audit firm culture. • Outreach to key stakeholders (audit committee chairs, audit firms, regulators, investors) to engage in dialogue on key areas of importance to audit quality and the regulation of Canadian capital markets.

Risk	Mitigation
Audit transformation – risk of CPAB's inability to respond to changes to the audit.	• Leadership of International Forum of Independent Audit Regulators (IFIAR) technology task force to increase collaboration among IFIAR members and have in-depth discussions with global firms regarding their use of technology in audits. • Building CPAB's skillsets through adding specialist resources and additional professional development on emerging technologies including generative artificial intelligence. • Evaluating how automated tools and techniques are being used in audits through our inspections and highlighting areas of good practice and common inspection findings. • Remain current on audit trends and influence the direction taken in addressing new risks.
Inspections – risk that we are unable to influence change, resulting in continued inconsistency of audit quality.	• Assess firms' systems of quality management, including culture and ethical requirements and independence at all annually inspected firms in alignment with the Canadian Standard on Quality Management (CSQM) 1. • Specific inspection procedures in key areas of fraud, going concern, consideration of climate risks, and the use of technology. • Enhanced oversight of firms under restrictions and requirements using a standardized framework to ensure consistent monitoring of firms' compliance.

Responsibility for Financial Reporting

The annual financial statements and all financial and other information contained in this annual report are the responsibility of the management of CPAB.

Management has prepared the financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations, applying best estimates and judgments based on currently available information. Note 2 to the financial statements describes the significant accounting policies. The financial information contained in this report is consistent with that shown in the financial statements.

Management is responsible for the integrity and reliability of financial information and has established systems of internal procedural and accounting controls designed to achieve this. These systems also reasonably ensure that assets are safeguarded from loss or unauthorized use. The board of directors is responsible for ensuring that management fulfills its financial reporting and internal control responsibilities. The board has created a Risk and Audit Committee to assist with these responsibilities. The Risk and Audit Committee met with the auditors, both with and without management present, to review the activities of each, as well as to review the financial statements.

Fuller Landau LLP has been appointed by the Provincial Audit Regulator Members as CPAB's auditors to express their opinion on the fair presentation of the financial statements. Fuller Landau LLP has had full and unrestricted access to the board of directors and management to discuss matters pertaining to their audit. The Risk and Audit Committee undertakes annually a formal review of the auditor's performance and makes a recommendation to the board of directors, which in turn makes a recommendation to the Provincial Audit Regulator Members with respect to their reappointment for the coming year.

Carol Paradine

Carol A. Paradine, FCPA, FCA

Chief Executive Officer

DBromley

David Bromley, CPA, CA

Chief Financial Officer

Fuller Landau LLP
151 Bloor Street West, 12th floor
Toronto, Ontario M5S 1S4
T 416-645-6500

Fuller Landau Audit Tax Advisory

Independent Auditor's Report

To the Members of Canadian Public Accountability Board/ Conseil canadien sur la reddition de comptes

Opinion

We have audited the financial statements of the **Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes**, which comprise the statement of financial position as at December 31, 2023, and the statements of changes in net assets, operations, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the **Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes** as at December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-For-Profit Organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Accounting Standards for Not-For-Profit Organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Fuller Landau LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
February 16, 2024

Fuller Landau

Financial Statements

STATEMENTS OF FINANCIAL POSITION

As at December 31

	2023	2022
ASSETS		
Current assets		
Cash	$ 3,080,537	$ 3,594,489
Investments (note 4)	3,490,032	2,546,085
Accounts receivable	314,739	142,289
Prepaid expenses	390,397	416,237
	7,275,705	6,699,100
Investments (note 4)	2,660,000	2,800,000
Equipment and leasehold improvements (note 5)	658,949	888,159
Intangible assets (note 6)	430,800	523,168
	$ 11,025,454	**$ 10,910,427**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	$ 2,502,100	$ 2,463,549
Deferred lease inducements	165,655	253,575
	2,667,755	2,717,124
NET ASSETS		
Invested in equipment, leasehold improvements and intangible assets	1,089,749	1,411,327
Unrestricted	7,267,950	6,781,976
	8,357,699	8,193,303
	$ 11,025,454	**$ 10,910,427**

See accompanying notes to the financial statements.

Approved on behalf of the Board:

Benita Warmbold

________________________, Director

Benita M. Warmbold, FCPA, FCA, ICD.D, F.ICD, Chair

Kevin Kelly

________________________, Director

Kevin Kelly

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31

			2023	2022
	Invested in equipment, leasehold improvements and intangible assets	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year	$ 1,411,327	$ 6,781,976	$ 8,193,303	$ 8,504,865
Excess of revenue over expenses (expenses over revenue) for the year	-	164,396	164,396	(311,562)
Purchase of equipment and leasehold improvements	135,965	(135,965)	-	-
Purchase of intangible assets	3,000	(3,000)	-	-
Amortization of equipment, leasehold improvements and intangible assets	(460,543)	460,543	-	-
Net assets, end of year	**$ 1,089,749**	**$ 7,267,950**	**$ 8,357,699**	**$ 8,193,303**

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS

For the years ended December 31

	2023	2022
REVENUE (note 8)	$ 20,963,724	$ 19,218,669
EXPENSES		
Salaries and benefits	15,719,031	15,024,607
Directors' fees and expenses	1,002,380	963,910
Occupancy costs	795,729	730,276
Information technology	790,993	712,944
Administrative and general	578,525	497,885
Travel	525,623	148,319
Legal services	402,236	300,492
Professional services	313,561	258,561
Insurance	267,014	216,989
Continuing education	191,829	150,780
Outreach activities	172,861	242,822
Amortization of equipment and leasehold improvements	365,175	389,648
Amortization of intangible assets	95,368	91,428
	21,220,325	19,728,661
OPERATING EXCESS OF EXPENSES OVER REVENUE	(256,601)	(509,992)
Investment income	420,997	198,430
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	$ 164,396	$ (311,562)

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31

	2023	2022
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	$ 164,396	$ (311,562)
Add back (deduct) non-cash items:		
Accrued interest income on investments	(76,140)	(76,555)
Gain on sale of equipment	(1,125)	(10,590)
Amortization of equipment, leasehold improvements and intangible assets	460,543	481,076
Amortization of deferred lease inducements	(87,920)	(87,153)
Net change in non-cash working capital items (note 9)	(75,866)	(115,480)
Cash (used in) generated from operations	**383,888**	**(120,264)**
INVESTING ACTIVITIES		
Purchase of investments	(3,260,000)	(13,000,000)
Redemption of investments	2,500,000	16,500,000
Proceeds on sale of equipment	1,125	10,590
Purchase of equipment and leasehold improvements	(135,965)	(95,496)
Purchase of intangible assets	(3,000)	(44,142)
Cash (used in) generated from investing activities	**(897,840)**	**3,370,952**
Cash (used) generated during the year	**(513,952)**	**3,250,688**
Cash, beginning of year	3,594,489	343,801
Cash, end of year	**$ 3,080,537**	**$ 3,594,489**
Additional information		
Interest received	$ 344,857	$ 121,875

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023 and 2022

1. THE ORGANIZATION

The Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB or the organization) is a corporation without share capital incorporated under the *Canada Corporations Act*. CPAB is exempt from income tax in Canada as a not-for-profit organization under Section 149(1)(L) of the *Income Tax Act (Canada).*

As Canada's public company audit firm regulator CPAB oversees audits performed by registered public accounting firms, and contributes to public confidence in the integrity of financial reporting and is committed to protecting Canada's investing public. CPAB promotes audit quality through proactive regulation, dialogue with domestic and international stakeholders, and practicable insights to inform capital market participants.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below have been applied consistently to all periods presented in these financial statements.

Basis of presentation

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. These financial statements are presented in Canadian dollars, which is also the functional currency of the organization.

These financial statements were approved and authorized for issue by the Board of Directors on February 16, 2024.

Use of estimates

The preparation of financial statements in conformity with Canadian Accounting Standards for Not-for-Profit Organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the year-end date and the reported amounts of revenues and expenses during the year. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Significant items affected by estimates in these financial statements are the recoveries of investigation costs, useful lives of equipment, leasehold improvements and intangible assets, accrued liabilities and commitments. Actual results could differ from these estimates.

Revenue recognition

The organization generates four types of revenue: intent to participate fees, annual participation fees, and recoveries for enforcement compliance and investigations.

Intent to participate fees are collected from an audit firm on its initial application to become a participating audit firm. This fee is a flat fee based on the number of reporting issuers of the applicant firm on the registration date. Intent to participate fees are recorded in the accounting period in which the fees are received.

Annual participation fees are based on audit fees paid by the participating audit firm's reporting issuer clients. This fee is billed annually or quarterly and recognized as revenue in the year to which it relates and collectability is reasonably assured.

Enforcement compliance costs are charged, in certain circumstances, to certain participating audit firms to recover the costs to CPAB of enhanced regulatory intervention and monitoring of compliance with any requirements, restrictions or sanctions imposed. This cost recovery is recognized as revenue in the period in which the work is performed and collectability is reasonably assured.

Investigation costs may be charged to participating audit firms to recover the internal and external costs incurred to conduct an investigation. Investigation cost recoveries are recognized as revenue when the amounts are known and collectable, which may occur as investigations are performed or in certain circumstances, upon conclusion of the investigation.

All other revenues are recorded when amounts are known and collectable.

Investments

Investments are composed of Guaranteed Investments Certificates (GICs) with maturities from one to three years.

Investments are initially recognized at fair value and subsequently measured at amortized cost. Interest is recognized in the statement of operations as investment income.

Equipment, leasehold improvements and intangible assets

Equipment, leasehold improvements and intangible assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets commencing on the date when the assets are available for use.

The estimated useful lives are as follows:

Equipment and leasehold improvements	
Office equipment and furniture	5–10 years
IT infrastructure and networks	4–5 years
Computing equipment	2–3 years
Leasehold improvements	Over the term of the lease (7–10 years)
Intangible assets	
Computer software	3–7 years
Website	5 years

Leases
For assets classified as operating leases, rental payments are recognized in the statement of operations on a straight-line basis over the terms of the leases. Lease inducements are accounted for as reductions of the lease expense over the term of the lease.

Impairment of long-lived assets
Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds its fair value. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

3. FINANCIAL INSTRUMENTS AND RISKS

The organization's financial instruments are composed of cash, investments, accounts receivable, and accounts payable and accrued liabilities.

Transaction costs are expensed as incurred unless they relate to financial instruments measured at amortized cost, in which case they are recognized in the statement of operations over the life of the financial instruments using the straight-line method.

Financial assets measured at cost are tested for impairment when there are indicators of impairment, and the amount of the write-down is recognized in the statement of operations when incurred.

Cash is held on deposit with its financial institution and is subject to an insignificant risk of change in value. The cost of short-term investments, plus accrued interest income, approximates their fair value due to their short-term nature. The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. See note 4 for fair value disclosures of long-term investments.

The organization is exposed through its operations to various financial risks.

Credit risk
The organization is exposed to credit risk with respect to cash, accounts receivable and investments. As of December 31, 2023, its maximum exposure is the balances on the statement of financial position.

As of December 31, 2023, the organization did not have any overdue accounts receivable.

The organization holds investments to ensure the availability of cash flow and to protect its capital. Investments are limited to GICs with financial institution members of the Canada Deposit Insurance Corporation. GICs with unquoted financial institutions or financial institutions below a credit rating of A are limited to the insured amount. Diversification of investments by issuers and industry reduces the overall credit risk of the portfolio of investments.

Liquidity risk
Liquidity risk is the risk that the organization will be unable to fulfill its obligations on a timely basis. CPAB's exposure to liquidity risk is low. As of December 31, 2023, the organization has cash and short-term investments of $6.6 million (2022: $6.1 million) to settle current liabilities of $2.5 million (2022: $2.5 million).

In addition, the organization has access to a credit facility up to $2.0 million (2022: $2.0 million) in the event of any short-term cash deficiencies.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and price risk. The organization is not significantly exposed to price risk and foreign currency risk.

Interest rate risk
The organization is subject to interest rate risk on cash and investments. Cash is held in a deposit account with its financial institution to which a floating interest rate applies. The average interest rate earned on bank balances during the year was 5.04% (2022: 2.79%). Investments have interest rates ranging from 1.25% to 5.20% (2022: 0.45% to 4.45%).

4. INVESTMENTS

Investments consist of:	2023	2022
GICs	$ 3,400,000	$ 2,500,000
Accrued interest	90,032	46,085
Total short-term investments	**$ 3,490,032**	**$ 2,546,085**
GICs	2,660,000	2,800,000
Total long-term investments	**$ 2,660,000**	**$ 2,800,000**
Total investments	**$ 6,150,032**	**$ 5,346,085**

Investments in GICs with maturity dates beyond one year from the year-end date are classified as long-term. Accrued interest on long-term investments of $80,251 (2022: $48,058) is paid annually and is included in accounts receivable. The fair value of long-term investments is $2.64 million (2022: $2.85 million).

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated amortization	2023 Net	2022 Net
Office equipment and furniture	$ 936,367	$ (804,421)	$ 131,946	$ 123,698
IT infrastructure and networks	854,021	(648,128)	205,893	225,585
Computing equipment	259,405	(186,839)	72,566	150,620
	2,049,793	(1,639,388)	410,405	499,903
Leasehold improvements	2,096,964	(1,848,420)	248,544	388,256
Equipment and leasehold improvements	**$ 4,146,757**	**$ (3,487,808)**	**$ 658,949**	**$ 888,159**

6. INTANGIBLE ASSETS

	Cost	Accumulated amortization	2023 Net	2022 Net
Computer software	$ 608,895	$ (203,544)	$ 405,351	$ 472,270
Website	127,245	(101,796)	25,449	50,898
Intangible assets	**$ 736,140**	**$ (305,340)**	**$ 430,800**	**$ 523,168**

As of December 31, 2023, computer software includes unamortized software under development of $63,330 (2022: $90,480).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023	2022
Trade accounts payable	$ 133,408	$ 172,249
Salaries, vacation and bonuses	2,241,249	2,203,146
Other accrued liabilities	127,443	88,154
	$ 2,502,100	$ 2,463,549

8. REVENUE

	2023	2022
Annual participation fees	$ 20,430,847	$ 18,741,811
Enforcement compliance	267,663	226,003
Investigation	243,089	200,000
Intent to participate fees	21,000	13,000
Other	1,125	37,855
	$ 20,963,724	$ 19,218,669

9. CASH FLOWS

Changes in non-cash working capital items are as follows:

	2023	2022
Accounts receivable	$ (140,257)	$ 40,234
Prepaid expenses	25,840	(10,805)
Accounts payable and accrued liabilities	38,551	(144,909)
	$ (75,866)	$ (115,480)

10. BANK CREDIT FACILITY

The organization has access to a bank credit facility of $2.0 million bearing interest at bank prime per annum. Amounts owing under the credit facility are payable on demand. No assets have been pledged as collateral for the credit facility and no charges are incurred until the facility is drawn down. No amounts were drawn on this facility during the year (2022: nil).

11. COMMITMENTS

The organization has operating leases for its Montreal, Toronto and Vancouver offices. There are no asset retirement obligations associated with the leases.

The estimated minimum lease payments are as follows:

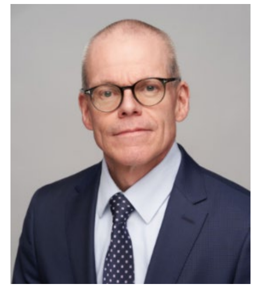
	Montreal	Toronto	Vancouver	Total
Expiry	**2029**	**2034**	**2027**	
2024	$ 122,244	$ 690,037	$ 116,052	$ 928,333
2025	127,747	749,299	117,629	994,675
2026	129,133	753,533	119,249	1,001,915
2027	130,547	760,289	40,305	931,141
2028	131,989	767,180	-	899,169
Thereafter	123,719	4,871,186	-	4,994,905
	$ 765,379	$ 8,591,524	$ 393,235	$ 9,750,138

Leadership team

Carol A. Paradine, FCPA, FCA
Chief Executive Officer

David Bromley, CPA, CA
Chief Financial Officer and Senior Director, Enforcement

Jennifer Cooper, LL.B
Vice President, Enforcement

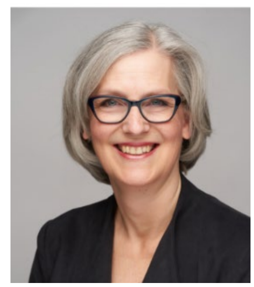


Malcolm Gilmour, CPA, CA
Vice President, Inspections

Kristina Heese, LL.B, B.C.L.
General Counsel

Jeremy Justin, CPA, CA
Chief Risk Officer & Vice President, External Outreach

Rahim Lalani
Chief Technology Officer

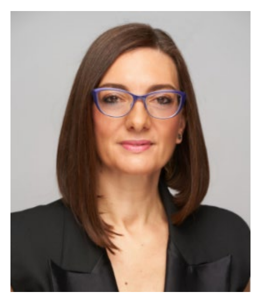


Margo Longwell, CPA, CA
Senior Director, Quality, Firm Risk and Registration

Susan Schutta, MA, MBA
Chief Corporate Affairs Officer

Heidi Scorgie, CPA, CA
Regional Vice President, Western Canada

Philippe Thieren, CPA
Regional Vice President, Eastern Canada



Lily Watson, CHRL
Chief People Officer

Board of directors

Benita M. Warmbold, FCPA, FCA, ICD.D, F.ICD[1, 2]
Chair
Toronto, Ontario

Richard Payette, FCPA, GCB.D[1]
Vice chair[3]
Montreal, Quebec

Renaud Caron, Fellow Adm.A[2]
Montreal, Quebec

Don G. Chynoweth, ICD.D[2]
Chair, Human Resources and Governance Committee[3]
Calgary, Alberta

Julie Dickson, O.C.[1]
Ottawa, Ontario

Bruce Jenkins, FCPA, FCA[1]
Vice chair[4]
Toronto, Ontario

Kevin Kelly[1]
Chair, Risk and Audit Committee
Toronto, Ontario

Alice Laberge, F.ICD[2]
Chair, Human Resources and Governance Committee[4]
Vancouver, British Columbia

Mary Lou Maher, FCPA, FCA[2]
Toronto, Ontario

Dr. Chika Onwuekwe, K.C., ICD.D[1]
Calgary, Alberta

Sophia Tsui, CPA, CA[1]
Vancouver, British Columbia

[1] Member of the Risk and Audit Committee
[2] Member of the Human Resources and Governance Committee
[3] Beginning in June 2023
[4] Until June 2023

Corporate information

Auditor

Fuller Landau LLP
151 Bloor Street West 12th Floor
Toronto, Ontario M5S 1S4

Corporate counsel

Ed Waitzer
Waitzer Professional Corporation
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